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Masters Thesis

CREATING COMPETITIVE ADVANTAGE IN MATURE E-RETAIL MARKETS

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ABSTRACT

In the last years, the e-commerce phenomenon has been both hailed as the new future and scorned as a complete failure. Views are now normalising towards seeing e-retail as one retail channel among many, a channel that, in the future, is expected to represent slightly over 10% of total retail sales. However, the loss of 10% of the total market could have a devastating impact on revenue for traditional retailers, implying that retailers cannot disregard e-retail. The question of what becomes important when fighting for this 10% of the customer base that has already chosen to shop on-line, both for traditional retailers and on-line pure plays, becomes important.

In this thesis we try to go beyond the more frequently discussed questions of how an e-retailer; (1) can create competitive advantages with regards to existing retailers or (2) can improve its competitive positioning through e-retail. What these questions are actually asking is “what are the advantages of e-retailing?” In contrast, this thesis asks the question “what are the *sources* of advantage in e-retailing?” This question focuses the sources of advantages that can make *your* e-retail offering better than *competitors’* e-retail offerings. This results in a focus on competitive advantage *within* the e-retail arena. We feel that this implies a mature competitive arena where competitive focus is not on getting customers to switch to e-retail but on competition between e-retailers for customers who have already chosen e-retailing. This thesis therefore explores the creation of intra e-retail competitive advantages in a mature e-retail arena.

We try to explore this question in order to give an overview of the issues involved. The study concludes by presenting a visual map of sources of competitive advantage within e-retailing and the relationships both internally between them and externally between the sources of advantage and the characterising attributes of the arena.

Method

This thesis uses a qualitative and explorative method. The empirical data is based upon interviews with 5 consultants from 3 consultancy firms. Consultants were chosen because of the constant learning and iterative way in which they approach their client-companies, based on theories concerning loop-learning and learning organisations. This thesis therefore results in an overview of *consultants’ views* on sources of intra e-retail competitive advantage. In order to analyse the empirical data a theoretical framework, consisting of six perspectives on competitive advantage gained from strategy literature, was used.

The method aims to look at a focused subject area on a general level using the broadest possible empirical base analysed in the widest possible perspective, given the available time and resources.

Findings

Consultants saw e-retail as a *sustaining and radical innovation*. Three important implications can be drawn from this; (1) the sources of competitive advantage in e-retail are sources of competitive advantage in retailing and, consequently, advantages gained in the e-retail arena could be transferred to strengthen competitive position in retailing as a whole. (2) The e-retail arena attributes make some sources of competitive advantage more important and others less important. (3) There are synergies between retailing and e-retailing, making understanding of intra e-retail specific sources of competitive advantage important.

Key Aspects of E-Retail Arena

Four such *key aspects* of e-retail were identified; (1) the *information closeness* of the point of sale, (2) the *flexibility and changeability of the medium*, (3) the *high cost of customer acquisition – low cost of customer maintenance* relation and (4) the *experience problem*.

Relation Between Key Aspects and Sources of Intra E-Retail Advantage

The Key Aspects of the e-retail arena affect sources of competitive advantage either by being; (1) *leveraged* (first key aspect), (2) *counteracted* (fourth key aspect) or (3) *handled* (second and third key aspects).

Sources of Intra E-Retail Advantage

These relations act towards five *key strategic goals* aimed at creating competitive advantage; (1) the *customer experience of the product*, (2) a *unique profile*, (3) *complementaries*, (4) *market orientation* and (5) *customer relations*.

Using these elements a map of intra e-retail advantages were created (*see appendix 4*). This map highlights a number of secondary areas of interest; there is a paradox between (1) *long-term consistency and short-term flexibility*, (2) *complementaries and a unique profile* and (3) *information gathering vs. trust*.

Keywords: e-commerce, e-retail, new economy, information economy, competitive strategy, competitive advantage

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1. INTRODUCTION

As late as 1996 the Internet was largely uncharted territory for commercial purposes. Leading up to the new millennium this all changed and e-commerce became a buzzword. New Internet pure-plays were announced daily, media attention soared and established firms raced to add dot com to their name. The message was "E-retail or Die!," e-commerce would change everything.

Since then things have changed. The e-commerce hype is one of the few casualties of the new millennium. Net companies have been unable to reach investor expectations, many have folded and the e-revolution has lost its golden boy media status (figure 1).

It is interesting to note that during the dot-com-mania, media attention on e-commerce was mainly focused on venture capital funded pure-play start-ups. E-commerce became associated with a small group of homogenous companies with similar aggressive growth strategies (BCG, 2000). For many of these companies the market turned sour before their strategy could bear fruit, which fuelled today's media gloom. But e-commerce and e-retail are not dead. E-commerce consultants maintain that e-retail will become – and is becoming – an important sales channel that will stabilise at 10-20% of total sales. Some industry experts even go so far as to predict a 15-25% market share by 2005 (CGE&Y, 2000).

The feeling left from the turbulent evolution so far is that the strategy discussion has been based largely on psychology and hype rather than economic theory. The internal logic has been that the emergence of e-commerce is a disruptive technology shift; a shift that would quickly and fundamentally change the business, leaving no time for reflection. This thinking is now changing. Consultancy reports (see for example Forrester Research, 2001; Gartner Group, 1999) and general media coverage point towards an approaching maturity phase in e-retailing. Expectations on e-retail are becoming more realistic and on-line consumers are trending towards retail industry average, both in terms of education levels and gender distribution (CGE&Y, 2000).

What will happen if e-retail use stabilises at 10% or more? This was discussed at an industry expert round table arranged by Cap Gemini Ernst & Young. It was suggested that the importance is not how large a percentage e-retail will take, but the effect on revenue. A small shift towards e-retailing could have a devastating impact on revenue for traditional retailers. One example given was the supermarket segment where it was suggested that a 5% shift to e-retail could mean a 20% shutdown of stores (CGE&Y, 2000).

One implication of this reasoning is that retailers cannot disregard e-retail. To be successful they need to actively compete within the e-retail arena and gain competitive advantage against the competitors' e-retail offerings. But how can this be done? Current strategic discussions have mainly focused on e-retail (Internet) advantage over other retail (non-internet) channels, the strategic aim being to gain customers from other channels. This can be seen as a focus on strategic advantage that can be gained by a business idea *with* e-retail (new) compared to a business idea *without* e-retail (old).

As the market matures and e-retail market size stabilises at a given percentage we assume that the competitive focus will shift to *within* the e-retail arena. The aim is no longer to move customers to the e-retail arena but to compete for the customers who are already there. In this master thesis we therefore explore competitive advantage in a mature e-retail industry by asking how competitive advantage can be gained within the e-retail arena in intra e-retail competition?

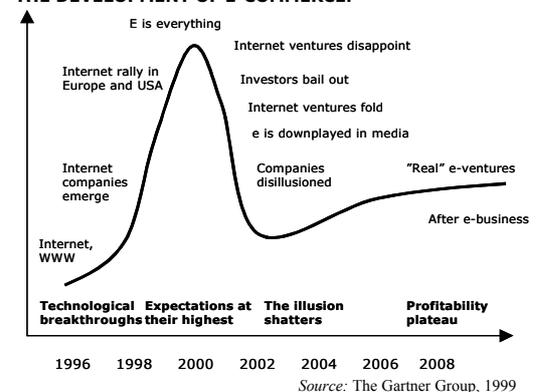
1.1. Research Question

In this thesis we have focused on e-retail strategy using a new, different and in our eyes interesting perspective. We wanted to go beyond the more frequently discussed questions of how an e-retailer; (1) can create competitive advantage with regards to existing retailers or (2) can improve its competitive positioning through e-retail. What these questions are actually asking is "what are the advantages of e-retailing?" In contrast, we have formulated our research question as:

"What are the most important strategic sources of sustainable competitive advantage within a mature e-retail market?"

We find this to be an interesting new perspective since we believe these factors will gain importance as the arena matures (that is growth stabilises and competition focuses on customers within the arena). To gain as

Figure 1
THE DEVELOPMENT OF E-COMMERCE.



much insight into this question as possible given the limited time available, we have decided to use consultants as sources of pre-aggregated knowledge. Therefore we have defined our aim as being:

“To explore the creation of strategic advantage in intra e-retail competition from the perspective of strategy consultants”

We have further deconstructed the research question into three guiding questions, which have supported us in our study:

1. *Does e-retail fundamentally change the dynamics of competitive strategy?*
2. *What attributes of the e-retailing arena are of greatest importance in defining e-retail strategy?*
3. *What factors and strategies are most relevant in gaining intra e-retail competitive advantage?*

1.2. Definitions

E-retailing strategy is quite a broad field of study. In this section we define important concepts needed in order to understand the area studied and the delimitations made. While some of the terms used (e-retail, B2C, pure-play...) are established, the definitions are of our own wording. In other cases (notably products sold) the divisions are our own, and were made in order to better visualize and delimit the subject area.

E-retail. We define e-retail as a sub-genre of B2C where the core offer is a product, and not a service, and where this core product is a physical good. This definition excludes services and information goods but includes physical goods bundled with accompanying services, for example warranties.

B2C E-Commerce. We define B2C (Business to Consumer) as a sub-genre of e-commerce where the seller is a business entity and the buyer is a private consumer.

E-Commerce. We define E-commerce (electronic commerce) as the buying and selling of goods and services on the Internet, especially when using the World Wide Web as the point of sale.

Companies. We have categorised companies according to what they sell, their channel strategy and their time of establishment.

Products Sold. We categorise e-retail companies in three groups according to what they sell; (1) *producer seller* – a producer selling own product, (2) *brand producer seller* – a producer selling a broad range of own products, (3) *store reseller* – a seller that sells a range of products produced by third parties.

Channel Strategy. Regarding channel strategies we define two groupings; (1) *Pure-plays* – actors using only one channel, in this case e-retail. (2) *Multi-channel players* – actors using several channels, in this case e-retail as well as having a presence in the brick and mortar world.

Establishment. Regarding establishment we see companies as either (1) *start-ups* or (2) *established players*. In general, pure-plays are start-ups while multi-channel retailers are established players.

1.3. Delimitations

In this section the positive delimitations (areas included) and negative delimitations (areas excluded) are discussed with regards to their impact on the thesis. The main purpose of the delimitations, even those of positive nature, have been to narrow the scope of the thesis in order to enable a more in depth study of the area of interest. This focusing can be seen as a way of countering the wide scope created by the many theoretical perspectives used to analyse the focused area.

Positive Delimitations

We have made four positive delimitations in choosing to focus on; (1) *strategy consultants' views*, (2) *e-retail companies*, (3) *intra arena competitive strategies* and (4) *competitive advantage*.

Strategy consultants' views. In choosing to use consultants as the source of empirical data, we delimited ourselves from looking directly at e-retail companies. This delimitation, not going to the original sources, was chosen in order to gain as much insight as possible given the limited time available for the thesis.

E-retail companies. We focus on strategy for e-retail companies to the exclusion of other areas of e-commerce. We have further chosen to focus primarily on *brand producer sellers* and *store resellers*. We have limited ourselves to e-retail companies in order to remove the product focus (*see negative delimitations*) and thereby highlight the strategic aspects. For the same reason we have excluded producer sellers since we feel product development to be one of the largest strategic aspects for these companies. With this delimitation we have implicitly assumed that retail and e-retail strategy, while not necessarily *being* separate, can be *studied* separately. For this reason we have not made delimitations with respect to establishment or channel strategy.

Intra arena competitive strategies. We have focused on intra arena strategies, not inter arena strategies. We have thereby chosen to not study (1) competitive strategies without connection to e-retail – such as between stores and mail order, (2) strategies concerning competition between other forms of retail, for example mail order or store based retail and e-retailers or (3) how a retailer can improve its business using the Internet. This last issue can be seen as a firm “gaining a competitive advantage over themselves” (see appendix 1). The basis for this delimitation is our aim, which is to study competition between e-retailers for customers who already shop on-line. It raises the question of separability of retail and e-retail strategy and competitive advantage. For this reason we study this aspect as a pre-requisite for our main analysis. We do this by looking at e-retail as an innovation and drawing conclusions regarding separability from the results.

Competitive Advantage. We have only focused on competitive advantage, not what constitutes competitive disadvantage or need-to-compete factors. This means that we do not study; (1) things that a business should not do as an e-retailer and (2) what a business must do in order to be able to compete as an e-retailer, or so-called need-to-compete factors. Instead we focus on what a business could do in order to create an advantage as an e-retailer. The need-to-compete factors are pre-requisites for this to be possible.

Negative Delimitations

We have made three negative delimitations in choosing not to focus on; (1) financial aspects, (2) product development and (3) consultancy methods.

Financial aspects. We have not looked at financial data. The reason for this is that we believe financial measures to be an indicator of strategic success only insofar as it is possible to analyse a longer time-period. Too many other factors may influence short-term financial performance in the emerging area of e-retail business. In addition, we are interested in general strategy and not the success or failure of individual firms. As a result, this study can only present theoretical discussions and not offer numerical proof for conclusions drawn.

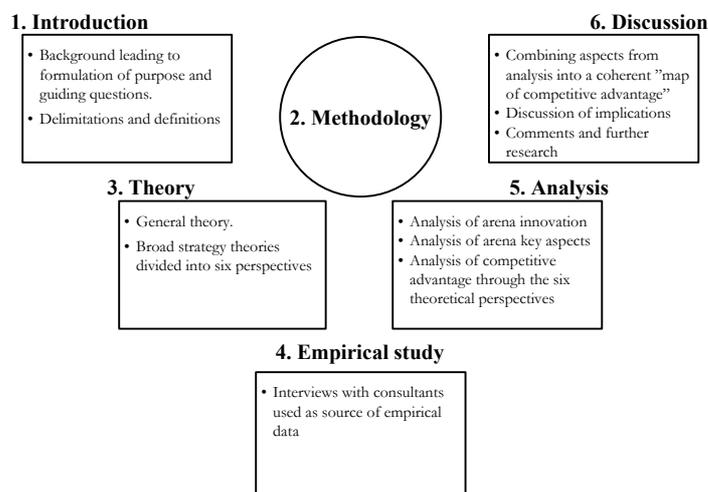
Product development. In this study, we have defined the product as a physical good for which there is already a proven demand. We also see this product as being constant. This has been done in order to exclude product development aspects from the scope and in order to be able to include both brand producer sellers (who can) and store resellers (who cannot) affect the product in the study.

Consultancy methods. We have not looked at consultancy methods. With this, we mean general models and theories for how consultants work and analyse problems on a general level. As a result of this is we do not compare different consultancy companies interviewed in this study, but rather try to synthesise their views on intra e-retail competitive strategy.

1.4. Disposition

This thesis can be seen as consisting of three levels of abstraction, going from (1) the more abstract introduction and discussion through (2) the theoretical review and the analysis and down to (3) the data collected in the empirical study. The methodology acts as a connecting layer, tying the three levels together to form a coherency and explain the inter-connectedness between levels (see figure 2).

Figure 2
DISPOSITION OF THESIS



Based on: Lundeberg, 1993

Level 1. The Introduction presents our research question and explains its background. This question is then answered in the discussion. The discussion connects the three analysis parts and ties together the strategic aspects identified in the analysis, independent of strategic perspectives.

Level 2. The theoretical chapter is divided into two parts, general theory and strategic perspectives. These perspectives are then applied in the analysis, which is divided into three parts. Each part focuses on one of the guiding questions posed in the introduction. Part one deals with if e-retail is something fundamentally new or not. Part two defines aspects of e-retail that affects strategy formulation. Part three connects the empirical findings with the strategic perspectives outlined in the theoretical chapter.

Level 3. The empirical study presents empirical findings in the form of cases, one for each company where the interviewees worked.

2. METHODOLOGY

This section explains the methods we chose for this study in order to fulfill the thesis purpose. Validity and reliability of the study are discussed, as well as inherent problems with the chosen method.

2.1. Research Method

Lundahl and Skärvad (1999) define an exploratory study as being a study used either to orient the reader within a field or to formulate a problem area. By this definition our study qualifies as being exploratory since it deals with finding relevant strategic areas and orienting the reader in the field of intra e-retail strategy. Due to the exploratory and forward-looking nature of this thesis we have knowingly traded depth for breadth. Our aim is to map the territory of strategic intra e-retail advantage, not to deal with specific aspects in depth.

When conducting explorative research Lundahl and Skärvad (1999) recommend the use of expert-interviews. The nature of expert-interviews in conjunction with the explorative aim leads to the qualitative research method used. To enable the qualitative analysis and interpretation of the answers gained from the interviews extensive literature studies were conducted. The theories where used as a raster sifting out relevant and useful areas of strategic advantage from the empirical data.

Literature Method

When we had a grasp over the most commonly used concepts and models connected with e-commerce, we read classic strategy literature in order to understand the overall concept of strategy. We also searched and read articles regarding e-commerce and the Internet. Later stages in the literature studies included literature that the consultants we interviewed recommended. We combined classic strategy literature, more management oriented literature and sources recommended by consultants in order to get as big a picture and wide theoretical overview as possible. We used and combined the groupings proposed by various authors in the strategic field to synthesise the theories into the six theoretical perspectives used in this thesis.

When grouping different theories the problem of comparability can appear. Our view is that the similarity and focus on competitive advantage strategy makes the theories used here comparable. The main difference we see is that the theories are on different levels of abstraction. Some perspectives can be compared to tools while some are more like toolboxes containing several tools. We do not believe that this impairs the overall connection between the theoretical perspectives since the tools themselves are on a similar level of abstraction.

Interview Method

The empirical data is based upon interviews with 5 consultants from 3 consultancy firms. The selection of interviewees focused on e-retail experts with experience from at least two e-retail cases. Choosing consultancies made it possible to broaden the empirical base using the limited resources available. The thought that consultants approach their client-companies in a constant learning and iterative way as to create organisational learning is based on theories of loop learning (Bateson, 1958; Argyris, 1990; Kolb, 1984). In theory, the consultancies use of internal knowledge management strategies also extends the individuals knowledge to include the knowledge of others (Hansen et al., 1999).

To avoid bias towards one consultancy's knowledge base, we choose not to concentrate on one firm but rather to get data from a variety of firms. We focused on large strategy consultancies since they often participate from top-level strategy formulation down to the implementation of strategies. This enables them to gain a broader and deeper understanding of the strategic considerations involved.

Preparation

Two preparatory interviews with two management consultants were conducted. These enabled us to better understand the consultants' way of reasoning, thereby creating better interaction during the following interviews. These preparatory interviews enabled calibration of focus and a more efficient use of the scarce time available for each of the main interviews. They also gave us insights into specific aspects to be considered such as the question of confidentiality, both on company and case-level. We also gained knowledge about consultancy methods and some of their uses. In "The Language of Change" Werr (1999) suggests that methods play an important role in management consulting. Accordingly, knowledge about methods enabled us to more fully interpret and understand the answers given during the interviews.

Prior to the interviews two documents were e-mailed to the interviewees. The first document contained a short introduction to the thesis. The second explained the aim of the interview and gave examples of questions to be asked. These two documents were created in PowerPoint, as it is a format commonly used amongst consultants.

We used a tape recorder to document all of the interview-sessions. This enabled us to focus on the discussion during the interviews. We later used the tapes to accurately transcribe the interviews.

Outline of Interview Sessions

We used a semi-standardised (Lundahl & Skärvad, 1999) interview method since this method, according to Lundahl and Skärvad, is suitable for exploratory studies. The semi-standardised structure also gave the respondents freedom in their responses and avoided influencing them into focusing on some specific aspects. The interviews followed the interview method outlined by Lundahl and Skärvad (1999).

Introduction. Each interview started with a short discussion in order to establish a common ground for the interview. The documents sent were reviewed, the interview aim was calibrated and general questions regarding the background of the consultant were asked. The introduction enabled us to ensure the timeframe for the interview so that no important questions were left unanswered due to lack of time. Lastly, the level of confidentiality was established in order to enable the respondents to speak more freely without unnecessarily censoring themselves during the interview.

General discussion. A free-form discussion method (Lundahl & Skärvad, 1999) using open-ended questions was used, in order to both capture pure facts as well as the interviewees' thought on the subjects. The questions were used to initiate and build the foundation for the discussion as well as guiding the discussion to ensure that no important aspects were missed. This section was divided into two areas; (1) discussion of e-retail in general with aim of giving a background for discussion as well as identifying aspects of e-retail influencing strategy formulation and (2) discussion revolving around a real or fictitious case. The case discussions did not focus on the cases *per se*; rather the cases were used to identify new areas and exemplify strategic aspects discussed.

Conclusion. An informal discussion was held at the end of each interview, where we asked for additional comments or thoughts on the area studied. We also asked the interviewees for any studies or literature that might be of interest for our study. This gave us access to literature and articles that would otherwise have been hard to find.

Finally, we asked how they had perceived the interview. We asked if it had developed as they had expected and if they had any suggestions for how we could improve. This was done in order to maximise the benefit from future interviews. Since the first company interviewed was also the last (and so forth), the companies were evenly spread out over our learning curve. This minimized the potential company bias introduced by the fact that later interviews can be assumed to be more informative due to our learning.

Follow up. After all of the interviews were conducted some complementing questions were sent by e-mail. We also gave the consultants the ability to comment the cases that we had created from the interviews. This enabled calibration of our interpretation of the interview results.

2.2. The Quality of the Study

In order to discuss the quality of this study we have used the concepts of validity and reliability, as defined by Lundahl and Skärvad (1999).

Validity

The validity of a thesis is concerned with the absence of systematic faults. Validity can be divided into *inner* validity and *outer* validity (Lundahl & Skärvad, 1999).

Inner Validity

Inner validity concerns whether the study measures what it is supposed to. In a qualitative study the interviewee's interpretation of the questions combined with the interviewers interpretations of the answers

could pose a problem. This is described by the congruence model, which states that what the interviewee is willing to discuss is only a part of the reality he perceived, which in turn is only a part of the “true” reality (Lundeberg, 1993). One way to deal with this problem is to conduct multiple interviews studying the same phenomenon and use secondary sources in order to cover as much of “reality” as possible. We conducted interviews with different people and discussed several cases. We also believe that the material sent before the interview sessions and the initial calibration of focus enabled a higher level of congruency. We were unable to refer to secondary sources such as printed reports or internal memos, since the information gained from the consultants regarding cases was confidential.

During the interviews, we tried to deal with misinterpretations at once by posing the question in another way or explaining its background without influencing the direction of the answer. Both authors transcribed each interview separately, after which the results were compared in order to get as correct an interpretation as possible.

Outer Validity

Outer validity measures to what extent it is possible to generalise the results. We believe there is an ability to generalise the findings in accordance to Yin’s analytical generalisation (Yin, 1989). Analytical generalisation as defined by Yin, states that the results of a study such as ours can be generalised in order to create theories, see patterns and use existing theory as a reference against which to compare the findings. Given the high level of abstraction in both the literature used as well as the analysis as a whole, we believe that the ability to generalise is higher than if the study would have dealt with more explicit details.

Reliability

Reliability measures the absence of random errors (Lundahl & Skärvad, 1999). Random errors are often avoided by conducting standardised surveys. The use of semi-standardised interviews conducted in an open way decreases the reliability of our study. In order to counteract this preparatory information was sent the interviewees before the interviews. In order to keep focus on the relevant aspects a standard set of questions was used as a framework for the interviews. However, it is important to keep in mind that the study is based on the views on consultants, and not on direct measurements of competitive advantage.

3. THEORY

The theory presented can be divided into two sections. We begin with some general theory, which introduces competitive advantage and discusses the distinctions between different types of innovation. The second section presents a selection of strategic theory related to competitive advantage. This section is divided into six perspectives, each focusing on a different facet of competitive advantage.

3.1. General Theory

The aim of this section is twofold. We first introduce the term competitive advantage in order to build a foundation for the different perspectives on this subject presented in the second theory section. We then present two ways of defining innovation. These definitions are later used to explore the connection between retail and e-retail strategy. We feel this to be important since it relates to our delimitation of only studying intra e-retail strategy and affects the inner validity of the study. If empirical data show that there is no difference, we will have studied retail strategy and not e-retail strategy.

Competitive Advantage

The natural goal for strategic activity on the corporate level is to attain a competitive advantage relative to the competitors. Peteraf (1993) has identified four cornerstones of competitive advantage. In order for competitive advantage to exist the industry must be characterised by (1) *heterogeneity* so that Ricardian rents may be earned. There needs to exist (2) *ex post limits to competition* for the rents to be sustainable. The industry and market should be characterised by (3) *imperfect mobility* so that the rents are sustained within the firm and (4) *ex ante limits to competition* so that rents are not offset by costs.

To be able to leverage a competitive advantage and reap above average rents, the advantage needs to be sustainable. That is, it needs to be possible to uniquely possess it for a duration of time. Sustainability is attainable in the short run, but advantages always evaporate over time. We see this evaporation as occurring either due to; (1) *paradigm shifts* that redefine what constitutes an industry wide advantage or (2) *competitors gaining and overtaking the advantage* due to a lack of long term protection of the advantage. Through these two forces competitive advantage either becomes obsolete or a need-to-compete factor. This thesis is mainly concerned with the second depreciating force, since this is the aspect a company can affect through its strategic considerations.

According to Grant (1991) there are four factors that affect sustainability; (1) *durability*, (2) *transparency*, (3) *transferability* and (3) *replicability*. The ability and possibility for companies to influence the sustainability of an advantage lies in either countering or leveraging these factors. In essence, for a competitive advantage to be sustainable the company needs to have a unique advantage that is protected and embedded into the company as to enhance its durability and defy imitation, transfer and replication. Different perspectives on competitive advantage focus on different means of influencing sustainability of advantages gained.

Innovation

E-retailing can be seen as an innovation in retailing that in turn is built around a technological innovation, the Internet. To better understand the competitive consequences of innovation several distinctions between types of innovation have been proposed.

One such distinction is between *sustaining* and *disruptive* innovations (Christensen, 1997). This division is based on the innovation’s effect on customer benefits.

A *sustaining technology* increases established customer benefits by improving product performance attributes that are already currently valued by existing customers.

A *disruptive technology* dramatically alters a product attribute not currently valued by existing customers while often decreasing performance in traditionally valued attributes in the short run. It thus offers a benefit that is usually valued by a completely new customer group.

A second distinction is between *incremental* and *radical* innovations (Henderson & Clark, 1990). This division focuses on how the production of the product is changed. This change can be either a change in the components and core concepts of the product or in the architecture of the product. A component is defined as a distinct portion of the product performing a well-defined function. The architecture is the way in which the components are linked together in a system. The core design concept is an underlying technique in a component. This division gives us a matrix of four possible categorisations of innovation as seen in figure 3.

A *radical* innovation features a new dominant design of core components embodying new core concepts that are reconfigured in new architectural configurations.

An *incremental* innovation refines and extends an existing design by improving individual components while the core design concepts they use, and the way they are linked together into a whole, remains the same.

A *modular* innovation features changes only in core design concepts while the overall system remains the same.

An *architectural* innovation reconfigures a system to link existing components in new ways. Components might be improved to fit the system, but the core design concept is the same.

**Figure 3
INNOVATION MATRIX**

		CORE CONCEPTS	
		reinforced	overturned
LINKS BETWEEN CONCEPTS AND COMPONENTS	unchanged	Incremental innovation	Modular Innovation
	changed	Architectural innovation	Radical Innovation

Source: Henderson & Clark, 1990

Both the sustaining/disruptive and incremental/radical differentiations of innovation focus on product development. This puts their applicability on e-retailing in question. We believe that they can be generalised in order to be applied to e-retailing. Although not a product we propose that e-retailing and traditional retailing can be seen as services. We further propose that as a service retailing can have attributes (price, convenience, and speedy delivery) whose performance can change through innovation. This service can also be seen to consist of components embodying core concepts joined in architectural configurations. We therefore believe that the concepts of sustaining/disruptive and incremental/radical can be applied to e-retail to discuss to what degree factors of competitive advantage and key success factors fundamentally differ from traditional retail.

3.2. Strategic Perspectives

Much like the elusive “Unified Theory of Everything” in physics, there exists no single economic theory on gaining competitive advantage. Instead there are several strategic groups, or perspectives, that approach the question from different directions. Studying competitive advantage from only one perspective runs the risk of missing aspects of the empirical data that could be given a new or different meaning from a different strategic perspective. In order to get as exhaustive a picture of competitive advantage as possible we therefore present six strategic perspectives along with their approach to the creation of competitive advantage. These perspectives have been synthesised from strategic literature regarding competitive advantage using divisions used by other authors in their academic texts.

Even though the perspectives outlined below may not cover all possible aspects of strategy, the aim is to cover as many angles as possible. The internal connectedness between the perspectives is that they complement each other in creating an overview of competitive advantage strategy.

Information Economy Perspective

When discussing e-commerce from an economic perspective the term "New Economy" is often used. However, the meaning of the term is hard to pinpoint making it difficult to use it as a basis for a strategic perspective. We have chosen to instead use the term information economy which we feel better capture the strategic aspects of the new economy that are not focused in other strategic perspectives.

The term "New Economy" is broad and has a different meaning for different people. As we see it, the term "New Economy" has become undefined by overuse. We see the term as mainly revolutionary, implying a break with the "old" pre Internet economic thinking. The implication is that information technology is disruptive, changing the economic society fundamentally in ways paralleling the industrial revolution. As such it is not very useful as grounds for strategic analysis of e-retail.

Some authors have applied a strategic view on "new economy". We have found it appropriate to start from Rayport and Sviokla's (1995) distinction between the marketplace and the marketspace in our thesis. The marketplace is the physical world and the marketspace is a virtual information based world. The "New Economy" then corresponds to the Information Economy while the "Old Economy" corresponds to the physical economy. We use this differentiation as the basis for our definition of the information economy perspective.

Interaction Between Marketplace and Marketspace

E-retail is on the border between the information and physical world. The sales channel is virtual (information based), thus the point of sale is in the marketspace. The core product is physical making the good itself and its distribution live in the marketplace.

Rayport and Sviokla (1995) use an analogy to Porter's (1998) value chain in analysing the market-space activities – the virtual value chain. Adopting value adding information processes in the virtual value chain can be divided into three stages; (1) *visibility* – creating information from physical processes, (2) *mirroring capabilities* – creating virtual processes from physical processes and (3) *new customer relationships*.

Extracting value from the marketspace is possible by using information to strengthen customer relationships through new offerings. Building relationships through the combination of the virtual and physical value chain involves five aspects (Rayport & Sviokla, 1995); (1) *gathering* information, (2) *organising* the information, (3) *selecting* relevant and useful information, (4) *synthesising* the information and finally (5) *distributing* the information.

Experience Goods

An experience good is a good that must be experienced in order to value it (Figueiredo, 2000). All new products are experience goods, since its characteristics are unknown to the customer. Information goods are at one extreme of the scale. They are an experience good *every* time since you cannot know its value until after you have already consumed it. We would argue that the experience effect is higher in e-retail than in retail since you only have the possibility to experience the information aspect of the good. Retail goods can therefore be graded in terms of how much experience they require to ascertain their quality (*table 1*). This affects information asymmetry between buyer and seller, consumer need to search for the optimal good and importance of seller reputation (Figueiredo, 2000).

Table 1
TYPES OF RETAIL GOODS

Type of Good	Key Aspects	Strategies
Commodity products Quality can be determined by their description irrespective of producer.	Correct characterisation, price, terms of delivery	Drive down costs in order to obtain profits
Quasi-Commodity products Differentiated commodity goods where every unit of the same good from the same producer is identical, but there are differences between producers.	Match with preferences, price, terms of delivery	1. Differentiate in search – selection and personalization 2. Insulate from price competition – communities, customer loyalty programs and branding
"Look and Feel" goods Products whose quality is difficult to establish from afar. Although each unit is the same it is an experience good in some aspects	Quality	Product brands, interactivity, price, reputation
"Look and Feel" goods with variable quality "Look and Feel" goods are goods where it is not only difficult to establish quality from afar, but where quality also varies from unit to unit. This makes it an experience good unless you have examined the exact unit that you will receive.	Actual attributes	Intermediary service, price, reputation

Based on: Figueiredo 2000

Value Drivers of E-Commerce

In evaluating e-commerce strategies the time-factor is a problem that makes a thorough study of strategic aspects with regards to company performance difficult. To tackle this Amit and Zott (2000) used a grounded theory approach to look at e-commerce business models. Their study identified four value drivers in e-commerce (table 2).

Table 2
VALUE DRIVERS OF E-COMMERCE

Value Driver	Aspects
Efficiency	Created through: reduced search costs, selection range, symmetric information, simplicity, speed and scale
Complementaries	Created between: products and services for customers, technologies, between activities, between on-line and off-line assets
Lock-in	Created by: Switch costs (loyalty programs, customisation) and Positive network externalities (direct, indirect) resulting in customers that are unable or unwilling to change product or service
Novelty	Created in: New architectural configurations (components, links)

Based on: Amit & Zott, 2000

Industry Organisation Perspective

The goal for industry organisation strategy is a defensible position within the industry. Important attributes to focus on are bound to industry logic and external factors. Another larger goal is the possibility to redefine the industry logic through successful implementation of strategy in combination with positioning.

Due to the multi-faceted nature of industry and competitor analysis strategy is formulated top-down. The process from evaluation to implementation goes through the steps of picking an industry, analysing it, choosing a strategic position and then fitting the organisation to the position within the industry. Picking an industry is about choosing an industry that fits the organisational goals. In order to choose a strategic position the five forces framework is used as the analytical tool. The five forces framework deals with bargaining power of suppliers and customers, threats of substitutes and the threats of new entrants, leading to an understanding of the strength of internal rivalry within an industry. Value chain analysis is used to fit the organisation to this position. Fitting into a position can include both vertical and horizontal integration through the value chain (Porter, 1998). According to Porter (1998) there are three major generic strategies used to gain competitive advantage; (1) *cost leadership*, (2) *niche play* and (3) *differentiation*.

Activities within a company can be described as a chain of events, each of which should add value to the company (Porter 1998). Value chain analysis is mainly concerned with the flow of physical goods and the processes coupled with this flow. Taking control of other parts of the value chain, thus repositioning oneself, can create an advantage.

Even though the perspective is influential, the theories about industry organisation's influence on strategy do not stand unchallenged. Heany (1986) discusses the impact on strategic planners. He argues that the additional need for organisational research in order to conduct a five forces analysis as well as follow up and determine the strategic actions might be a load too heavy to bear for most companies. What constitutes the boundaries of any chosen industry is not easy to define, thus making an analysis from the industry perspective difficult (Sampler, 1998). One of the main critiques against industry organisation as the basis for strategy formulation is the static nature of the theory. It is questionable whether the use of a strategy formulated using a static snapshot of a fast moving industry is useful (Grant, 1991; Sampler, 1998).

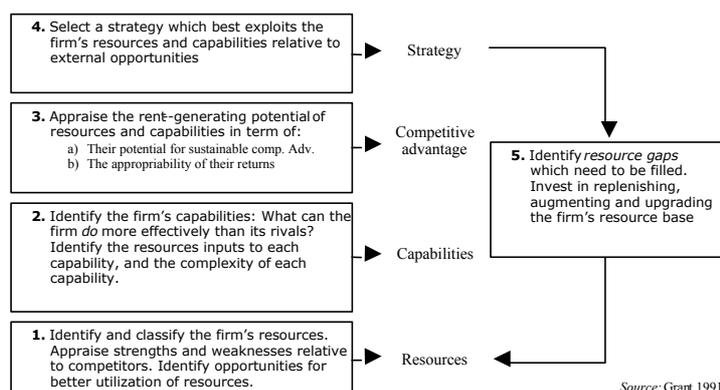
Resource Based Perspective

The resource based view of competition views firms as a bundle of competencies and resources that can be used to determine the industrial and geographical boundaries of the corporation. It is an internally focusing framework that looks at the dynamics of changing resources over time (figure 4).

The resource-based view hinges on two fundamental assumptions; (1) *resource heterogeneity* – that resources and capabilities can be heterogeneously distributed among firms and (2) *resource immobility* – that the differences can be stable over time (Barney et al, 1995).

The important distinction between resources and capabilities is that resources constitute the inputs to the production of a firm, whereas

Figure 4
RESOURCE BASED STRATEGY FORMULATION



Source: Grant 1991

capabilities are what create value with the resource inputs (Grant, 1991) through “a complex pattern of coordination between people and between people and other resources” (Grant, 1991 p.122),

Resources can be leveraged by capabilities in five main ways; (1) efficient *concentration* on key strategic goals, (2) efficient *accumulation*, (3) *complementing* different resources with one another, (4) *conserving* resources as often as possible and by (5) *recovering* them from the marketplace as fast as possible (Hamel & Prahalad, 1993).

In order to apply the concept of resource based advantages one needs a clear definition on what constitutes a core competency, as competencies are the foundation of capabilities. According to Hamel and Heene (1994), a core competence can be seen as bundle of constituent skills and technologies, rather than a single, discrete skill or technology. Hamel and Prahalad (1993) define three main criteria to be fulfilled for a competency to qualify as a core competency; it must be (1) *customer centric*, (2) *competitively unique* and (3) a *gateway to new markets*. The customer-centricity in the competencies must deliver extended value to the customer. A competitively unique competence might be widespread, but the company’s mastery of it must remain superior in the long run for it to qualify as core-competence. As gateway to new markets core-competencies enables the company to discover and enter new markets.

According to Hamel and Heene (1994) there are three broad types of core competencies that a company could have; (1) *market-access competencies* which are skills that put the company closer to customers, (2) *integrity-based competencies* which are skills that enable a company to do things more quickly and (3) *functionality-based competencies* which is skill at investing in services or products giving an edge. These can in turn be divided into *human competencies*, *factor competencies* and *process competencies* (Hamel & Heene, 1994). It is important to note that core competencies are for the most part not product-specific. The contribution applies to a range of products and services that the company provides to market.

Competition between firms might be seen as a competition over competence-mastery as much as it is a competition for market position and market power. In order to gain a competitive advantage companies need to leverage unique firm competencies, perform a continuous evaluation of the competencies needed and evaluate the match/mismatch between needed and possessed competencies. It is also difficult to predict future industry leadership based upon the starting resource position (Hamel & Prahalad, 1993).

Networks & Relationships Perspective

Industry organisation focuses on how a company can position itself against competitors. The resource based perspective focuses on how to leverage internal resources and capabilities. Networks and relationships theory focuses on creating competitive advantage by leveraging external contacts. These contacts can be of all types, such as suppliers, competitors, producers of complements and customers.

Networks

The value network perspective challenges the traditional organisational boundaries by defining the company and its value creation through the companies and organisations it is interlinked with (Allee, 2000). Dyer and Singh (1998, p 661) add to this by arguing that “a firm’s critical resources may span firm boundaries and may be embedded in inter-firm routines and processes.”

Strategic networks may take the form of strategic alliances, joint ventures or long-term partnerships (Gulati et al, 2000). Value is created not in the individual firms’ value chain, but in the interconnected value network that the company participates in (Allee, 2000). Value networks can also be seen as a ways of creating a dynamic value chain with demand pull instead of supply push (Bovel & Martha, 2000)

The primary source of higher-than-average returns stems from inter-firm knowledge-sharing routines and complementary resource endowments (Dyer & Singh, 1998). Allee (2000) elaborates this by defining that a value network generates economic value through engaging in exchanges between one or more companies, its customers, suppliers, strategic partners and the community. These exchanges are often complex and dynamic to their nature (see *appendix 2*). Allee further defines three different kinds of transactions that revolve around, and within, these networks (*table 3*).

Table 3
THREE KINDS OF TRANSACTIONS INVOLVED IN NETWORKS

Transaction	Explanation
Goods, Services, and Revenue	Exchanges for services or goods, including all transactions involving contracts and invoices, return receipt of orders, requests for proposals, confirmations, or payment
Knowledge	Exchanges of strategic information, planning knowledge, process knowledge, technical know-how, collaborative design, policy development, etc., which flow around and support the core product and service value chain
Intangible benefits	Exchanges of value and benefits that go beyond the actual service and that are not accounted for in traditional financial measures, such as a sense of community, customer loyalty, image enhancement, or co-branding opportunities

Based on: Allee, 2000

Relationships

One of the central aspects of networks is the relationship between the actors in the network. The competitive advantage attainable through relationships and networks can be divided into four categories; (1) *investments in relation-specific assets*, (2) *substantial knowledge exchange*, including the exchange of knowledge that results in joint learning, (3) *the combining of complementary resources or capabilities* which result in the joint creation of unique new products, services or technologies and (4) *lower transaction costs* than competitor alliances owing to more effective governance (Dyer & Singh 1998).

The length and strength of a relationship is determined by two factors; (1) *commitment* and (2) *trust* (Morgan & Hunt, 1994). Commitment and Trust can be analysed separately although trust can be seen as a precursor to commitment. Commitment is seen as governed by the four factors (1) *relationship termination costs*, (2) *relationship benefits*, (3) (lack of) *opportunistic behaviour* and (4) *shared values*. Trust is governed by *shared values*, *communication* and (lack of) *opportunistic behaviour* (Morgan & Hunt, 1994).

When creating relationships on the Internet Keen et al (1998) define three relevant dimensions; (1) *information*, (2) *transaction* and (3) *interaction*. In order to succeed in creating a relationship online one needs to take all three into equal consideration. Focusing on one or two and neglecting the third leads to unsuccessful relationships.

Market Orientation Perspective

A fourth aspect of competitive advantage is degree and focus of market orientation. Kohli and Jaworski (1990) define market orientation as being the organisation-wide activities of (1) *generating* market intelligence concerning customers current and future preferences (2) *disseminating* this intelligence and (3) *responding* to the communicated intelligence. This response is divided into the developing of plans (*design*) and the execution of these plans (*implementation*).

Market orientation is assumed to be positively related to business performance. Since customer expectations and competitors positioning continually change, advantage can be created by continually and dynamically sensing and responding to changes in order to consistently produce high quality products (Bradley & Nolan, 1998).

Kohli and Jaworski's (1990) definition of market orientation is customer focused. However, the perceived quality of a company's offering is not only related to its fit to the customers' preferences. It also depends on its relative fit compared to its competitors positioning. We therefore see the market as consisting of both customers and competitors. Day and Wensley (1988) have theorised that environment factors (*table 4*) could affect the relative importance of customers and competitors as foci for market orientation. A study by Slater and Narver (1994) found weak support for these moderators.

Table 4
ENVIRONMENTAL MODERATORS

Emphasis Moderators				
Customer	Hi	Market Growth	Lo	Competitor
	Lo	Buyer Power	Hi	
	Lo	Competitor Concentration	Hi	
	Hi	Competitor Hostility	Lo	

Based on: Day & Wensley, 1988

Table 5
ANTECEDENTS

Top Management	
• emphasis	[+]
• risk aversion	[-]
Interdepartmental Dynamics	
• connectedness	[+]
• conflict	[-]
Organizational Systems	
• reward systems	[+]
• formalization	[+]
• centralization	[-]
• departmentalisation	[-]

Based on: Kohli and Jaworski, 1993

Jaworski and Kohli (1993) list three main antecedents of market from relevant literature; (1) *top management*, (2) *interdepartmental dynamics* and (3) *organisational systems* – with underlying attributes which they suggest help or hinder market orientation (*table 5*).

The existence of the *market orientation – business performance* relationship has been tested with positive results by Kohli and Jaworski (1990) as well as Slater and Narver (1994). Suggestions that the strength of this relationship could be affected by environmental factors have not found support in empirical studies (Jaworski & Kohli, 1993; Slater & Narver, 1994).

Being an organisational attribute and a part of the business culture, it is both difficult and expensive to develop, maintain and change market orientation. This puts in question whether it is efficient to change magnitude of market orientation in response to transient environmental moderators (Slater & Narver, 1994). The same doubt could be forwarded for emphasis changes.

Brand Perspective

A fifth source of advantage is the company brand and branding strategy. A brand is more than just a name or a logo. Kotler (1997; p.443) defines a brand as "a name, term, sign symbol or design, or combination of them which is intended to identify goods and services of one seller or group of sellers and to differentiate them from those of competitors." We have chosen to highlight two aspects of brand based competitive advantage, *brand equity* and *brand extension*.

Brand Equity

The term brand equity introduces the customers' perception of the brand to the brand concept. Keller (1993) defines customer based brand equity as the effect on a customer of previous knowledge about a brand when confronted with a new marketing effort for that brand.

Sustained positive brand equity can increase margins, decrease price elasticity, increase consumer search activity and increase the effect of market communication. For the company this can be seen as a competitive advantage that increases probability of brand choice, creates greater consumer loyalty and decreases vulnerability to competitors marketing.

Because of the associative nature of memory brand equity can be seen to have two dimensions: (1) *brand awareness* and (2) *brand image*.

Brand awareness is the ability to identify a brand based on strength of recognition and brand recall.

In the consumer choice process brand awareness controls if a brand becomes a member of the considered set in a choice. It can also affect the selection of a brand from the considered set, especially in low involvement choices where familiarity and establishment can be sufficient grounds for a specific decision. Lastly, brand awareness can affect the formation and strength of new associations.

Brand image is the collection of associations that the brand holds for the consumer. These associations can be seen on different levels of abstraction like *benefits*, *values* and *culture*. Associations on each level are affected by their *favourability*, *strength* and *uniqueness*.

Association strength depends on how the association was formed (*encoding*) and how it is maintained (*storage*). *Favourability* depends on the importance of the association to the consumer. This importance can be situational, meaning, that certain associations are valued more in certain contexts. Lastly, *uniqueness* is related to the positioning of the brand in relation to competitors. It is the competitive advantage or unique selling point that compels the customer to choose it.

One important aspect of the image is its *cohesiveness*, or to what degree its associations share meaning. A lack of cohesiveness, or *diffuseness*, risks making new associations weaker and less favourable as well as making it more difficult to recall old associations. The associations of a diffuse brand are also more easily manipulated by competitors marketing.

Brand Extension

Extending a brand is the act of using the core product or services brand to inform consumers about a new product or service in a more efficient manner (Keller, 1993). The logic is that the act of extending an existing brand will let the new product piggyback on existing brand equity, thus gaining awareness and inferred associations.

Consumers evaluate a brand extension according to the *salience* (the kind of information that comes to mind), *relevance* (the applicability of this information to the current choice) and *relative favourability* (how positive it is in relation to the extension as well as competitors' brands) of the core brands associations in the extension context (Keller & Aaker, 1992).

The extension of a brand does not only affect the new product or service, it can also create feedback to the core product or service. This effect can be positive if there is an overall similarity between the extension and the core product or service, as well as congruence between all brand extensions. A brand can also be *diluted* through an extension. Disparate products or services can reduce the strength of associations as well as creating negative feedback from existing brand owners whose brand has now changed associative meaning.

4. EMPIRICAL STUDY

We have created three "cases" out of the empirical data gathered. Each case corresponds to one of the companies that the consultants we interviewed worked in.

Two of the company cases are aggregated from the views of two consultants. Where no clear indication of name is present both interviewees of the particular company shared the thought expressed.

The client cases discussed, as defined in the introduction to each company case, are the cases used in the interview to exemplify the discussion. The cases were used as a tool to make it easier for the consultants to present their thoughts and ideas about e-retail strategy, and for us to understand the business implications of the thoughts expressed.

4.1. Company A

Adam Management Consultant (e-business/user experience)	Albert Management Consultant (e-retail/organisation processes)
Consultant: 3 years	Consultant: 2 years
E-retail: 3 years	E-retail: 1 year

Client Case Discussed	Client Case Discussed
<ol style="list-style-type: none">1. <i>Long term strategy for established Swedish retailer</i><ul style="list-style-type: none">• Technology – increase security and availability• Business – change focus from test to e-commerce with goal of being profitable• Develop on-line image	<ol style="list-style-type: none">1. <i>Established Swedish retailer</i><ul style="list-style-type: none">• Technology – increase security, availability• Business – change from test to profitability• Develop on-line image2. <i>Develop business model for Swedish e-commerce pioneer experiencing growth pains</i><ul style="list-style-type: none">• Processes and structure• Service quality• Delivery times

E-Retail

In the beginning of Adam's consultancy career he believed that e-commerce was a paradigm shift. He has now changed opinion, viewing at least e-retailing as being just another sales channel. E-retail is in many respects similar to mail order since it serves the same customers with the same needs as retail in general. However, it can also have the potential to attract new customers because e-retail is more "hip" than mail order. E-retail offers some advantages – like convenience, accessibility and up to date information – but these advantages are not quantum leaps forward. At the same time some aspects, for example the ability to experience the good and thus judge quality, are reduced. Albert echoes this view, adding that there are certain attributes that could be disruptive but that nothing we see today greatly changes the retail market dynamics. The possibility to explore new ways to buy, like market places and co-operative buying, could be such disruptive aspects.

Retailing as a whole is a mature market with established players in most segments. Building a brand and the network of contacts required to compete in retail takes several years. This is something that could become a strategic advantage for early starters, especially since brand is believed to be the largest value-driver in e-retail. E-retail also requires understanding of the new business logic in the whole value chain. This includes new competencies, organisational roles and units as well as an increased need for communication between units.

Brand, defined broadly, is intimately linked to the largest perceived challenge in selling physical goods over the Internet, the problem of selling using pictures. In this sense branding also includes the ability to put the products in a context and sell based on created feelings. This, combined with large technical costs, makes the starting of an e-retail venture expensive. Adam likens starting an e-retail business to setting up business in a new country. Since establishing a presence is expensive, the large possibility is instead the ability to cheaply scale the business once it is rolling and the possibility of global presence. Even in a local perspective e-retail offers the possibility to reach more customers than would have been viable physically.

The main issue for e-retailing is the mediation of quality. This puts focus on brand and the creation of experience. A second related issue is the creation of a consistent image. A third is the usage and leveraging the information component of the Internet medium.

Creating "The Buzz"

Brand is viewed as one of the main value-drivers in e-retail. It gives the possibility of higher price/margins. However, in e-retail the fight for attention gains importance. Adam uses the term "The Buzz" to describe the creation of feeling and experience. The aim is to convey a unique association with the e-commerce site. The buzz can be different for different companies; everything from a story created around the site and the company to a direct association such as "low price." Neither consultant believes that any e-retailer can be seen to be using either personalization or one-to-one, not even Amazon.com. Amazon.com has rather created an advantage by making customers believe that it is using one-to-one.

This creation of a unique association is difficult. It is anchored in the combination of people and culture to create an organisational process and structure. This is particularly evident in e-retail where people with Internet creativity need to work with those who have the economic responsibility. A related problem is the e-retail sites connection to a unified market profile. Internet is a fast medium, partly because it allows quick change but also because the medium in itself changes quickly. This makes it difficult to develop and be consistent with regards to the business' market profile. Because the possibility exists there is a temptation to change direction frequently that needs to be quenched. At the same time it is difficult to unite the long-term thinking of a traditional marketing department with the Internets possibility of quick change and its need for interactivity. This company culture is difficult to imitate making access to the right people and the possibility to retain them within the organisation ever more important.

Customer loyalty should be attained through the creation of long term relations, for example through brand and “the buzz”, and a level of service that makes the customers stay, rather than lock-in based customer loyalty programs. The brand per se can be seen as a general term that affects loyalty and association to different aspects of the business, such as “the buzz” or the creation of experience over the Internet. Brand and “the buzz” are used to create customer loyalty. Albert stated that it is more important to give customers freedom to choose than to create lock-in.

Creating Experience

One of the largest hurdles in e-retailing is overcoming the customers’ buying resistance that is caused by the difficulty in evaluating product quality over the Internet. Selling over the Internet relies in large on selling using pictures, much like mail order.

Products can be grouped into non-experience and experience goods. The degree of experience required depends on the physicality of the good, its homogeneity and its price. The higher the degree of experience required the more advanced the offer has to be. Conveying a feeling of quality is one aspect, but the product is not the main focus. Focus needs to be on the whole context in which the product is presented. This context creation requires a combination of aesthetic skills and technology to overcome the limitations of the media.

Technology is merely an enabler in this process. Creating the experience requires knowledge about how to use data from analysis tools available combined with non-technical, creative people in a group working together to sell using pictures. It also requires working processes for content management. The process needs to involve everything from planning and photography to assuring that products out of stock are not shown. This can be difficult when they are shown in a context with other, in stock, products. According to Albert this whole process needs to be kept in-house to be effective.

Information Analysis

The ability to leverage the information possibilities of e-retail was identified as a core question. Today, information gathering and analysis is largely customer focused. Albert believes that this will change in the future when more focus will be placed on competitor information.

Data – Information – Knowledge

Albert divides information into data, information and knowledge. Data is easily attained and easy to copy, which limits its competitive value. Data linked to products or customers becomes information, which requires competence to be generated. Knowledge is gained when understanding gained from the information is distributed, which requires organisation and culture.

Information analysis is an internal process, or rather a combining of people, process and technology with a supporting information culture. This is very difficult to copy. The information generated is not transferable since it is linked to a company’s brand. It is easy to get the data but difficult to know what it means. To create real knowledge these types of analyses need to be done repeatedly hundreds of times to give them meaning. This implies a structure and learning that is difficult to copy.

Standard systems are a foundation for this information analysis structure but do not create value in themselves. The setting up of the process and culture is the difficult part, made more difficult by the fact that the people who are good at analysing and using the gathered data are not interested in understanding the technology, and vice versa.

Integrated information processes, information distribution and sharing are needed. The information and knowledge need to be spread in the organisation and used to connect vision, market plan and activities, in order to give an advantage. It can then become a tool to retrieve and preserve outside impulses to help the business in the right direction. It is important to lift the results into the marketing plan to support development of brand, image and experience. Information can be gained both from a product and a customer focus.

Products

Analysis of what is selling and what isn’t selling is very important in retailing and e-retailing. More important is the underlying question of “why?” Products that are selling well might well be made to sell better. For products that are not selling the question of if they should be removed or if they can be made to sell more, and if so how, is raised. Should the experience or context for the product be changed? Or can it be linked to another, selling product? In this context outsourcing can be used as a tool for creating complementary offerings. Linking products to create added sales is a core concept in many retail and e-retail markets that can be a source of direct advantage. Product information analysis also enables matching of product and customer data to create added sales.

Customers

Another important aspect is information about the customer. It is important that the customer does not experience the gathering and use of information as an invasion of privacy and that the gathering is kept within the boundaries of the law. Customer information enables personalization, which can be seen as an edge. Correctly used it can create a cheaper contact interface to the customer and thereby a cheaper relation. According to Albert, players established in the physical retail space can have a starting edge in this respect by being able to transfer information already gained in other areas to the e-retail business. Like the processes for experience creation, processes connected to customers should be kept in-house.

Technology

There are still many technological problems in e-retail due to the immaturity of the platform. In some cases these can lead to short term advantages to companies that manage to solve them better than their competitors. Technology in itself is not seen as a source of competitive advantage. Simple technology is simple to copy and while advanced technology can give an edge for a year. However, it usually takes a year to understand and use the technology by, meaning by the time the market is ready for it has been copied.

Albert sees that an integrated IT platform for all parts of the business, “e” as well as traditional, could be an advantage in the short term. Another such factor is ease of access. While 24/7 availability is a need-to-compete factor speed and ease of use/convenience could be a short-term advantage that will become a hygiene factor as the medium matures.

4.2. Company B

Bob	Bill
Consultant	Consultant
Consultant: 3 years	Consultant: 5 years
E-retail: 1,5 years	E-retail: 1,5 year
Client Case Discussed	Client Case Discussed
1. <i>Fictitious case: On-Off/NetOnNet</i> <ul style="list-style-type: none">• Gain market share	1. <i>New Swedish pure-play e-retailer</i> <ul style="list-style-type: none">• Technology – develop the platform• Business – Launch and operate

E-retail

According to both the interviewees e-retail is not to be seen as something revolutionary. Internet is one channel among others. According to Bill, it can be viewed as a new incarnation of mail order that focuses on the same customers. The choice of channel is less important than the factors that the specific company is able to leverage within the chosen channel. Many companies have been on the net purely for marketing purposes, but today customers expect to be able to instantly buy products described on the site. There is also a belief (as expressed by Bob) that the number of established retailers in the e-retail arena will increase greatly.

The main difference from other channels is the temporal and geographical accessibility, that the new medium simplifies the collection of information and the possibility to present the product more attractively than in mail order. According to Bob, the possibility to present the products favourably has yet to be fully realised. Downsides are the lower degree or different degree of interactivity with the seller coupled with the inability to determine the quality of the good.

As in many other channels it is very hard to compete based upon pricing-strategies, which makes other means of competing more important. A low price is a need-to-compete factor and therefore not a possible source of advantage over other e-retailers. The same is true for technical considerations and data mining.

The most obvious possibility with e-retail is the ability to bypass middlemen. Other possibilities include the ability to retain the customer at a low cost, along with the option to have content together with the products and thus also become a service provider. According to Bill e-retail requires different competencies that retail in the sales-to-order, order-to-delivery and CRM processes.

According to Bob, consultants at company B start with an external analysis of the environment before proceeding to focus more on internal aspects. In order to evaluate the business model it is compared with the markets demands, as found in an external analysis. Two main themes were recurrent in the discussion about strategic aspects leading to competitive advantage; (1) customer centricity and (2) internal operations.

Customer Centricity

The consultants expressed a clear customer focus regarding strategies for e-retail. Customer loyalty is hard to obtain in e-retail due to the dynamic nature of the channel and the fact that each interaction with the customer spans a limited time. Thus customer acquisition is both the most obvious challenge posed as well as being the greatest possibility.

A competitive advantage is to be attained for the company having an overall lower cost of customer acquisition than its competitors. The flexibility enabled by the medium could be used to extend the service offering and thus retain the customer for a longer period of time, thus reducing the cost of maintenance. This flexibility also enables a constant redefinition of the business model to best suit the current market.

It is also imperative to be able to deliver both the physical goods as well as the experience connected with the purchase. Other challenges are cost-effectiveness and making use of the vast amount of information that it is possible to gather about the customers. A clear need-to-compete is the implementation of customer care and customer service. It is difficult to gain advantages in these areas since proficiency is expected from every company.

Profile

A clear and consequent profile is important in the communication with the customers. The brand, in combination with the characteristics of the Internet, enables companies to be inventive in coming up with complementaries. Combining different offerings into new products therefore becomes one area where advantages can be gained. Gaining customer loyalty through market-oriented strategies with attributes that are hard to copy can also build a long-term strategic advantage.

Information

Building communities is one way to gain exclusive information on which to build one-to-one marketing strategies. A long relationship with a customer gives rise to information barriers that build switching costs for the customer, thus enabling moderate degrees of lock-in if successfully implemented, as in bonus-programs. However it is notably hard for management of most companies to understand the need for managing this information in order to gain advantages.

According to Bill, it is better to have a niche-product with focus on a specific customer segment. However, flexibility in the offering as well as some degree of personalization is needed in order to retain the customer.

Operations

The second area of focus in understanding e-retail strategy is operations. Of importance here is the need for flexibility in the business model in order to cope with shifts in e-retail. An ongoing trend is for e-retailers to try to gain access to a larger part of the value chain, thus extending their business model.

Being good at operations increases the quality of the products and services and creates internal margins that can be used to leverage the customer relation as mentioned above. This implies the ability to convert information into action, something that Bill believes is lacking in companies today.

Logistics

The main question posed is how to make logistics more efficient. However, advantage involves more than just having knowledge about the shipment of goods. This will become a need-to-compete factor. Logistics advantage can be created through innovative alliances with distribution actors from other industries but within the e-retail channel.

Partnerships

The right partners and partnership networks can be a source of advantage, particularly partnerships aiming at combining the product with a complementary service offering. Being part of the right network also gives rise to inimitable advantages in the content creation area. Although the most potent networks lie on the personal level, it is possible to buy oneself into the right network.

4.3. Company C

Charles

Director

Consultant:

8 years

E-retail:

since start

Client Case Discussed

2. *Fictitious case: On-Off/NetOnNet*
 - Gain market share
-

E-Retail

Internet is a discontinuous innovation whose development differs from traditional retail. Traditional retail is sluggish and dominated by practical people. The Internet is still the domain of visionaries with new ideas and a fresh view on the industry – in short, people that believe in the technological possibilities of the new medium. E-retail also puts new demands on technology and communication competence and enables new groupings of these competencies due to the decreased importance of geographical placement.

When discussing possibilities and challenges in e-retailing Charles redefines the problem as a question of customer focus. Why should customers shop over the Internet? He sees the primary reason to be the ability to get information about products, prices and to compare different retailers. Convenience is of secondary importance. E-retail turns towards the same customers as normal e-retail, although it can be said to focus on a smaller segment consisting of people unwilling to go to the store due to lack of time or movement handicaps.

The Internet as a sales channel is characterised by three factors; (1) the ease with which you can change profile, (2) the possibility to easily gather information and (3) the possibility to create alliances, collect services and create complements. In gaining competitive advantage processes and focus on positioning towards customers is important.

Positioning

One important aspect of gaining an advantage in e-retailing is positioning in respect to both customers and competitors. It is important to be unique, to be clear over in which respect you want to be unique and to communicate what you are good at. This is made extra vital by the ease of shopping around provided by the Internet.

To create this uniqueness the consistency of the profile is important. The ease of change and the large possibilities for disloyalty that are inherent in the use of Internet as a medium make it tempting to change profiles often. Without this consistency customers will not feel secure with your brand. This affects perception of quality, brand interest and thus customer loyalty. A consistent profile can therefore be a strategic advantage.

This brand building is more important on the net than offline since the customer cannot evaluate the product quality in the same way as in a regular store. Your own products, what you sell and which partners you use and link to affect confidence in the brand. Thus the supplier or producers brand create confidence in the qualities of the offer. Quality brand is a competitive advantage. If a company is successful in creating confidence and security for the customer, it will be able to charge higher prices for the products.

A key aspect in creating a unique profile is knowing who you are serving and being able to adapt your offering to their demands. The Internet increases the possibilities to satisfy these demands, either yourself or through partnerships. To accomplish this you need to (1) ask question, (2) analyse buying patterns and (3) adapt your offering accordingly.

Gathering and using data is a core aspect of e-retail where collaborative filtering and finding similar behaviour in different customers are key ideas. Generally, neither on-line nor off-line retailers are very good at this.

The technology for information gathering is standardised. The difficulty lies in learning to use it and in gaining the special competence that information analysis requires. This also makes it possible to gain advantage by “making things happen” on the e-commerce site.

Complementary Services

The creation of a complete service offering that appeals to the customer is a source of advantage. It is intimately related to positioning since the wholeness is important. Care must be taken to guard your profile uniqueness and to keep a consistent and customer centred focus. A common trap is to try to be too much. A better strategy is to concentrate strictly on what you are good at, thereby gaining an advantage.

The Internet facilitates the gathering of services and complements through portals or partners. The possibility of creating alliances is larger due to decreased investment costs. This creates the possibility of gaining an advantage against competitors by creating a unique offering and more complete offering. Established retailers have an advantage in this respect since they can more easily combine real-world and on-line offerings to create offering synergies. However, it is important to partner with the right sort of companies and to screen partners. In order to satisfy the customer the same or similar experience is required from all partners.

Customer Loyalty

There are two basic ways of making money in retailing; (1) making money on every transaction or (2) selling to the customer several times. To make money on every transaction procurement and logistics processes and competencies are crucial. However, making money on every transaction is difficult. First time customers often buy promotional goods with low or negative margin. The near perfect information offered on the Internet makes it easy to shop around for these bargains and leads to high marketing costs thus making the cost of customer acquisition high.

The key question therefore is how to create a pattern of repurchases through customer loyalty. Creating a lock-in might be possible if it becomes a natural part of the business, but it could entail difficulties in gaining a wider customer base. Learning based lock-in is not possible towards the first 5-25% of the market since these customers think technology is easy.

Procurement and Logistics

Even if making money on every transaction is not a realistic strategy, focus on margins is very important to success. This is especially true since commodity goods are price sensitive. Procurement and logistics therefore become very important both in terms of efficiency and in maintaining service level. Procurement advantage is linked to learning, scale and infrastructure.

Charles believes that delivery and efficiency will become need-to-compete factors. We will see several actors with high efficiency, although this could be difficult to attain for companies only active on the Internet. Product producers can reduce their distribution apparatus by removing middlemen.

5. ANALYSIS

The analysis section is divided into three parts, each focused on one of the guiding questions posed in the introduction.

In the first part of the analysis we look at e-retail as an innovation, trying to determine the degree of discontinuity e-retailing creates in relation to current strategy. The aim of this section is to lay the foundations for a discussion of how separate e-retail strategy is from retail strategy as a whole.

In the second part of the analysis we try to isolate a number of key aspects that differentiate e-retail as a retail arena. This section can be seen as building up to the final analysis, where sources of strategic advantage are found using the six strategic perspectives outlined in the strategic theory. This is done in order to understand why some strategic areas were focused more than others.

In the third section of the analysis the interview data is viewed through a raster consisting of the different strategic perspectives that were discussed in the theory chapter. We use the six strategic perspectives in order to; (1) get a more complete picture of the data by viewing it from several angles, (2) filter the data to make it more manageable and (3) tie the data to theory in order to identify sources of advantage. Our aim is to lay a clear foundation for the final discussion on the creation of strategic advantage in intra e-retail competition.

5.1. Degree of Innovation

“Does e-retail fundamentally change the dynamics of competitive strategy?”

In order to analyse e-retail from an innovation perspective we have used the concepts of sustaining/disruptive and incremental/radical innovation.

Sustaining or Disruptive?

To analyse if e-retailing could be seen as disruptive we evaluated the consultants views on e-retailing according to three criteria; (1) does it focus a new customer segment with (2) a new or fundamentally increased benefit not previously valued while (3) decreasing traditionally valued benefits.

While it seems clear that some benefits are decreased in e-retailing, for example the *ability to evaluate the quality of the good* and the *time until reception of good*, it is not as easy to see that it offers a new or fundamentally increased benefit. While both *accessibility* (temporal and geographical) and *overview of offering* have the potential of being such attributes, it is not evident that they are not available or traditionally valued in other forms of retailing. Lastly, consultants believed e-retail to either focus on mail order customers or a smaller segment of the traditional customer, and not a new customer segment. Taken together one can say that e-retail exhibits some disruptive characteristics but that these are being normalised as the innovation is being adapted to suit the established customer group. We therefore find e-retail to be more of a sustaining than disruptive development.

Incremental or Radical?

In order to deduce the position of e-retailing in the radical innovation matrix we asked the consultants if (1) the competencies for different components of the offering were different and and/or (2) the way in which these worked together or were connected was different. The validity of these replies was tested in each case by asking for examples.

These questions were asked in a fairly direct manner. Although the examples and reasons given were not always the same, the answer to both questions was an unequivocal “yes.” Our analysis from this discussion is therefore that the interviewed consultants view e-retailing as a radical change.

5.2. Key Aspects of E-Retail

“What attributes of the e-retailing arena are of greatest importance in defining e-retail strategy?”

Before starting our analysis of the strategic aspects of intra e-retail competition that surfaced in the conducted interviews, we found it useful to first see what characteristic attributes of e-retailing that spawned these foci. We wanted to bring forward the differences in e-retailing that could be seen as the underlying reasons that different strategic aspects or perspectives were emphasised. Our aim was to identify the key aspects of the arena that affect the strategic foci for finding sources of strategic advantages in intra e-retail competition. We believe that these factors are important in order to understand the strategic implications as expressed in the strategic perspective analysis in part three.

Through analysis of the interviews we picked out four key aspects of e-retailing that we feel coloured the strategic discussion the most (*table 6*). The key aspects are our interpretation of what areas of the e-retail arena the consultants believed to be of greatest importance to strategy formulation. Next to each key aspect, we have listed some key views expressed by consultants at each company supporting the aspects. The list of attributes found is not an exhaustive list of aspects of the e-retail arena. Only those factors either explicitly or implicitly advanced by the interviewed consultants as affecting intra e-retail competitive strategy have been included.

Table 6
KEY ASPECTS OF E-RETAIL ARENA

Key Aspect	Company A	Company B	Company C
Information closeness	Direct feedback Profile/collect information about large customer group Information analysis easier Customisation easier Advantage of up-to-date information	New medium simplifies collection of information about customers Possible to combine product with content	Possibility to easily gather information Gathering and using information is a core aspect Possibility of virtual alliances
Flexibility and changeability of the medium	Internet allows quick change and also changes quickly Ability to change profile Difficult to combine long term thinking with possibility of quick change. Tempting to change too often	Customer loyalty hard to maintain due to dynamic nature of medium Greater possibility for flexibility of business model	Easy to change profile Easier to adapt to external demands Temptation to change profile often can cause insecurity and reduce perception of quality
High cost of customer acquisition	Cheap customer relation possible due to extended information Battle for customers attention more important	Cost of customer acquisition increases and gets more challenging Inexpensive to maintain customer relationships	Increased price sensitivity Many actors Increasing competition due to ease of switching
Low cost of customer maintenance		Customer loyalty hard to maintain and create due to dynamic nature of medium Information barriers can build switching costs	First time customers often buy promotional goods with low margin Near perfect information increases cost of customer acquisition
Experience problem	Reduces the ability to experience the good and judge quality Difficult to create added sales and impulse buying Problem of selling using pictures	Inability to determine quality of the good	Customers cannot evaluate product quality as in a store

5.3. Strategic Perspective Analysis

“What factors and strategies are most relevant in gaining intra e-retail competitive advantage?”

In analysing the areas of strategic relevance we use the theoretical perspectives outlined in the theory chapter. We grouped statements gathered in the interviews according to the strategic perspective they could best be seen to represent (*see appendix 3*). Using this as a base the empirical cases were then analysed using the tools provided by each perspective.

Information Economic Perspective

In this analysis we have first looked at the experience good problem as applied to e-retailing. We have further analysed the interview data with regards to the most common value drivers found in e-commerce business models by Amit and Zott (2000).

Experience Goods

The experience concept was seen as very important to e-retailing since the virtuality of the medium hinders the proper evaluation of the physical aspects of the good. Product uniqueness was the usual factor used to determine degree of experience required, although one company went further by defining the experience level of a good as being a factor of the products homogeneity, physicality and price.

Handling the experience problem can be seen from two perspectives; (1) *decreasing the experience barrier* and (2) *creating experience* in order to breach the experience barrier. Discussions about decreasing the experience barrier dealt mainly with the reputation and quality image of the brand.

When creating experience different forms of interactivity was seen as a way of emulating physical experience of the good. Another strategy that surfaced was to use the mail order trick of substituting experience with selling using pictures to create a context. We also believe that some aspects of content creation and the creation of a unique image, or “the buzz”, can be seen as providing a proxy for experience in that the unique association can carry an expectation of what one will receive when buying.

The creation of these different factors requires the combination of technology, administration and creativity. Many of the aspects are brand based while some are creation based (creating context, content, interactivity). However, they can also be seen from Keen et al’s (1998) relation creation using information (content) and interactivity. Transaction is provided in the form of exchanging money and information for goods as well as Morgan and Hunt’s (1994) commitment – trust perspective. Dealing with the experience problem can therefore be seen from a creative, brand and relation perspective.

In discussions concerning near commodity products we saw the biggest strategic focus to be the de-commoditising of the product by creating an extended and more complete service offering. However, we are unsure if this is a realistic focus for all companies since this focus could be influenced by the fact that the discussions were not framed by existing firm-specific strategies.

Value Drivers

Regarding the applicability of e-commerce value drivers in creating competitive advantage we found that efficiency was not deemed a source of advantage. This was mainly because efficiency was seen as becoming a hygiene factor and that e-retail could not greatly increase efficiency in the core physical retail processes.

Complementaries were forwarded as a source of competitive advantage by some, but not all, interviewees. Complementaries were seen from two different perspectives; (1) *creating a more complete service offering through partners* and (2) *new value added services though leveraging of the virtual value chain*. We see this first view as being applicable in the network perspective and the second perspective as best fitting in Rayport and Sviokla’s (1995) virtual value chain model.

The discussions on lock-in can be divided into two parts; (1) *implicit lock-in* that is based on the ability to offer higher service than competitors and (2) *explicit lock-in* that is based on synthetic switching costs like loyalty programs. With regards to explicit lock-in there were several conflicting views, some viewing loyalty programs as a source of advantage while others viewing it as a disadvantage due to a high cost of customer confidence. There was agreement that implicit lock-in due to customer relation building could be a source of advantage, but disagreement whether learning based lock-in could be created.

A relational bond consists of the value the customer feels she is getting from the retailers knowledge about her preferences. If this value is so strong as to become a relational bond that would be lost when switching retailer, then information about customers could increase switching costs. As for learning lock-in, some consultants argued that learning based lock-in stemming from site and process familiarity could be created. There were two main objections to this. Firstly, it was advanced that those choosing to use e-retailers would be technology savvy and thus less likely to be bound by learning lock-in. Secondly, it was proposed that simplicity would become a hygiene factor thus removing the learning aspect.

Industry Organisation Perspective

Having analysed the interviews we feel that the Industry Organisation Perspective was the least used perspective. None of the key arena aspects identified in section 5.2 directly highlight a strengthening or weakening of the different tools in this perspective. However, there are some small insights which were highlighted.

The flexibility enabled by the medium coupled with possibility of profiling point towards a differentiation strategy as most suitable generic Porter strategy. However, there are factors for and against all the generic strategies. Some consultants described a need for niche products and a focused customer group paired with a focus on areas of expertise, which implies a focus-strategy. On the other hand the statement that Internet is best suited for non-unique goods goes against niche-play. Two different views on price competition emerged. One being that price competition is difficult on the net, and the other that price sensitivity increases thus making price competition viable. The differentiation strategy is the strategy where the greatest unanimity was found. The importance of a strong and unique brand coupled with the need for positioning in relation to competitors to create uniqueness implies that a differentiation strategy could be the best choice for e-retailers.

Some of the aspects that were discussed impacts the factors defined in Porters five forces framework (Porter, 1998). The two main factors that we found implicit references to were (1) the effects on *bargaining power* of *buyers* and (2) the intensity of *internal rivalry* among competitors.

Bargaining power of customers. The greater ease of changing suppliers and new forms of buying, such as co-op buying, implies a high level of bargaining power for the customers. However, many of these new possibilities have yet to be attained according to the consultants. This makes a clear statement about the present and future situation unsure.

Rivalry among competitors. The rivalry was high in the early years of e-retail due to the number of new actors entering the arena. The following market-squeeze increased rivalry at the same time as it forced a consolidation hinting at lower rivalry. Now established retailers are on their way online, thus retaining the high rivalry. Overall high costs (technology, relationships through time and money) paired with the huge effort needed to go online builds barriers to entry, and consequently act to lower internal rivalry amongst competitors in the times to come.

Resource Based Perspective

Two key aspects of e-retail focus the resource based perspective; (1) *information closeness* which gives rise to a need to cope with increased information loads and (2) the *experience problem* through the possibility to combine resources to create added sales.

The respondents focused on capabilities and the competencies behind the capabilities. Access to resources was not stressed nor implied enough to emphasis resource allocation and supply. The resource that did emerge as important was information, which is a resource able to create advantages only insofar as it is coupled with the right skills. Thus the following analysis will deal primarily with what competencies that the empirical data gave that qualify as being core competencies or the basis for capabilities that give rise to competitive advantage.

As defined in the theory chapter there are three aspects of a competence/capability that defines whether the competence/capability qualifies as core; (1) *customer centricity*, (2) *competitive uniqueness* and (3) the *ability to act as a gateway to new markets*.

We identified four areas of competence that have the possibility to qualify as core and thus gaining a company a competitive advantage. (1) *Content creation and data-mining* deals with the information aspect of e-retail as identified in table 6. (2) *Corporate culture* connects to the information and flexibility aspects that need a uniting corporate culture to be leveraged. (3) *Coping with fast change* corresponds to the long term/short term profiling aspect inherent in the flexibility of the medium. Finally, (4) *negotiation and procurement skills* can be seen as an aspect of internal efficiency, since it deals with getting the right price and the quantity to the right price. It can also be seen as leveraging the aspect of extended offerings.

Table 7
ASPECTS OF IDENTIFIED COMPETENCIES

	Content creation and skill at data-mining	Corporate culture focused on added-sales	Coping with fast change. Flexibility and innovation	Negotiation and procurement skills
Customer centric	Creating content can clearly be defined as a customer centric activity	Customer centric insofar as it enables the company to sell more. Not clearly customer centric from the customers point of view	Not necessarily customer centric, thus diminishing its weight. Advantage if flexibility is used to adapt to customer demands	Could be seen as customer centric insofar as the negotiation skills are used to create value for the customer
Unique Heterogeneously dispersed within industry	Not unique in itself. Uniqueness can stem from innovative pairing of competencies	Can be unique since it takes time and great effort to build corporate culture and values	Can be unique. Easier said than done to be flexible and maintain business focus	Can be found within all companies to varying degrees, thus not unique
Gateway to new markets	Creating content that appeals to new customers segments could create gateway to new market	Not a gateway to new markets in itself	Definitely creates gateways if the company is flexible enough. Being too flexible can loose existing markets	Can be a gateway through contacts with suppliers with varied product range
CORE COMPETENCY	YES	NO	YES	NO

Table 7 deals with the relative “core-ness” of the competencies gleaned from the empirical data. The more “core”, the greater the possibility to create a competitive advantage. Corporate culture is one competence/capability that the respondents saw as advantageous, that from a resource perspective does not qualify as something that a company can leverage as a core competence. Negotiation and procurement is something that the theory point towards being a source of leverage, but that the respondents thought to be simply a need-to-compete factor.

To conclude, the competencies most plausible to create advantages from the resource perspective are (1) change flexibility and (2) content creation and data mining.

Networks and Relationships Perspective

Information closeness is one of the factors of e-retail as an arena that in combination with the flexibility of the medium and customer acquisition aspects leads to networks and relationships being important in analysing competitive advantage. Another statement from the empirical data which points towards networks as being increasingly important is that Internet reduces investment barriers, thereby making the creation of physical and virtual alliances easier.

Using Dyer and Singh's (1998) categorisation of competitive advantage through networks it is possible to analyse the empirical findings and their potential for creating competitive advantage. From such an analysis we find that the combination of complementary resources is the primary source of competitive advantage according to the interviewees. This is due to the focus on commercial contact networks as a way of creating content and enabling cross selling. Also present is the enabling of a network of goods to create a full-service solution that satisfies customer demands.

Since the customers are the focal point of most answers, the relationship theory of commitment and trust derived from Morgan and Hunt (1994) is useful in finding sources of advantage. The defining factors of commitment and trust that emerge as being most important from the empirical data are; (1) *Communication*, since the high experience aspect demands a higher degree of interactivity, (2) *termination costs* that are created by the high cost of customer acquisition present that deters a company from prematurely terminating relationships and (3) *opportunistic behaviour*, that is suppressed due to the belief that customers are worth more the longer the relation due to valuable information created in the relationship.

From the discussion above coupled with the determinants of trust and commitment as defined in chapter 3.2, trust appears to be more important than commitment when analysing relationships between e-retailers and customers. We see the main sources for trust as being the communication aspect and incentives to refrain from opportunistic behaviour.

Using Keen et al's (1998) division of online relationship creators the respondents seem to focus on information and interaction as the main creator of online relationships in e-retail. The transaction aspect is not anything that the interviewees focused on. This could be due to the fact that the transaction aspect is implied in a retail operation (trading money for goods). However, information as a relationship creator connects to Allee's (2000) classification of exchanges within networks. Information was the main exchange dealt with, making information both the relationship creator as well as the relational currency. We can thus infer that information can be seen as being both "pure" information (as seen by Keen et al.) as well as being connected to the transaction aspect. From this perspective the respondents implicitly covered all necessary dimensions. One implication of this is that advantage can be created through the ability to master information, both in itself and as a transactional good in the form of complementaries.

Relations are clearly something that all respondents stress, which, combined with the theoretical frameworks, put relationship and network management as a clear source of competitive advantage. The transactional good to focus on seems to be information, which clearly connects to the medium and possibilities of e-retail.

From the analysis above advantages from a networks perspective are gained from the combination of complementary resources together with business partners, and a relationship with the customers created by information, built around trust and with information exchanges complementing the traditional money and goods as the relational currency.

Market Orientation Perspective

The gathering and using of information was a major focus for creating competitive advantage. To analyse sources of competitive advantage we have structured our analysis around the three steps of market orientation as described by Kohli and Jaworski (1990) as well as market orientation emphasis as described by Day and Wensley (1988). Although all interviewees discussed aspects of all three steps of market orientation, focus was on information gathering and to some degree response.

Gathering

Since the point of sale is in the marketplace the ease of information gathering increases. We saw this to be especially true for what we have chosen to call *hidden information gathering*, which we define as information gathering that occurs automatically without the direct intervention of the customer.

Information gathering is today focused on customer information and behaviour as well as product sales. This gathering process can be seen as trade off between information and customer confidence. The steepness of this

trade off can be affected by both brand trust and the degree of relational gain perceived by the customers well as adjusted by trading money for confidence.

The main source of advantage described was structures for continuous gathering and analysing as well as the competence to analyse this data. This analysing aspect gains importance for two reasons; (1) technology is not seen as a source of advantage since it is standardised and therefore adds little value in itself, and (2) the data that it is easier to gather is very raw containing few associations. We therefore see this advantage to be resource based in nature.

The consultants highlighted the disassociation of information system skills and market data analysis skills as a core problem in the gathering process. The creation of interfaces between the information systems that generate data – and in extension the IT departments that create the systems – and the marketers with the competence to use this information can therefore be seen as a source of advantage.

Response

Response is divided into response design and response implementation (Kohli & Jaworski, 1990). The informational aspect of e-retailing simplifies some aspects of response implementation by informationalising the process. A retailer that decides to change the product mix or promote impulse buying by placing two products next to each other does not need to physically reorganise countless physical stores. Also, although not realistic today, it is theoretically possible to do this on a per customer basis.

Four main response goals of market orientation were identified. These were (1) *analysing customer preferences* in order to personalise the relation, (2) *analysing customer behaviour* in order to promote on site interactivity in order to reduce the experience goods effect (3) *analysing product sales* in order to increase sales by changing product mix or product presentation (4) *analysing product buying patterns* in order to enable impulse buying through cross selling.

Emphasis

Day and Wensley (1988) theorise that the relation between customer and competitor emphasis can affect advantage gained from market orientation. Based on the interviewees' focus on customer and product intelligence to gain advantages, which we have described above, we interpret market orientation efforts today to be very customer focused. This is in-line with theory considering the high growth and high internal rivalry of e-retail.

Brand Perspective

As discussed in the information economy perspective, the experience barrier of the Internet promotes customer centric and brand focused strategies. Brand profile was also one of the main foci of the strategic discussions in our study. Brand was advanced as a tool for mediating quality, increasing loyalty and reducing price sensitivity.

We have structured our discussion of brand based competitive advantage around Keller's (1993) division of brand equity into an awareness and an image aspect. We have further used the brand extension concept to analyse both e-retail brand strategy as well as effects of complementaries on competitive advantage.

Awareness

The interviewees at one company stated that e-retail was a battle for awareness, implying that the awareness aspect of brand equity could be an important source of competitive advantage. However, Internet was described by some of the respondents as enabling customer to gain perfect information. If one main benefit of Internet is information then the Internet shopper should be an informed shopper, thus reducing the value of awareness. This of course depends on if the search costs really are lower on the Internet, which still remains to be proved, as well as how the customer's propensity for information search changes as the market matures.

We would suggest that awareness is not in itself a major source of advantage. Brand awareness is generally only a decision influencer in low involvement buying situations (Keller, 1993). This implies a near commodity product, which is exactly the kind of product for which information and comparisons are easily made and found (for example through comparison services like pricerunner.com). In such a situation the awareness effect would mainly be tied to the producers' brand with the sole retailer attributes evaluated being the easily comparable price, delivery and access to physical outlet attributes. We believe that this would reduce the value of awareness in itself as a source of competitive advantage.

Image

Brand image can be seen as consisting of a set of associations (Keller, 1993). Discussions of brand and positioning did not focus on development of this association set, but rather on image cohesiveness aimed at creating an overall image uniqueness. Examples of such cohesive images were amazon.com being the "most personalised", Ikea being "value for money" and Clas Ohlsson having "all the bits and pieces in one place at an affordable quality." In our interviews the only association we were able to identify as standing out was

quality. This was in large part due to the ability of a quality association to lessen the experience effect. The question of what quality is and to what degree it is unique still remains.

In order to create the above-mentioned uniqueness image consistency, both over time and media, was highlighted as a core factor. This becomes an important source of advantage due to the difficulty of maintaining a long-term strategy in the face of the Internet's increased ability to generate market intelligence and flexibility in adapting to it. This is important both in terms of not letting the Internet image change more quickly than the total brand as well as keeping it consistent over time. Consistency was seen as critical for uniqueness, loyalty, interest and perception of quality. Several consultants also focused on the need for this uniqueness to be communicated in all aspects of the offering; from site design, product mix choice and perceived back-office complexity.

Brand Extension

We have identified two main aspects of brand extension; (1) e-retail as a brand extension and (2) effects of brand extensions created within the e-retail arena. Firstly, an established actor's e-retail offering can in itself be seen as a brand extension leading to questions regarding salience, relevance and favourability in the context of the total brand equity. This is something to be taken into account when thinking about the e-retail image. Secondly, brand extension becomes important in the context of leveraging network advantages and the creation of complementaries. In both these cases the question of negative feedback and brand dilution become important factors affecting these sources of advantage.

In conclusion, the main sources of brand competitive advantage are finding and leveraging unique attributes, maintaining consistency over media and time as well as a mature brand extension strategy.

5.4. Summary of Analysis Findings

In table 8 we summarise the main findings from the analysis sections above.

Table 8
SUMMARY OF ANALYSIS FINDINGS

Type of Innovation	
Sustaining and radical	
Key Aspects of Arena	
Information closeness, flexibility and changeability of medium, high cost of customer acquisition – low cost of customer maintenance relation, experience problem	
Sources of Advantage	
Information economy perspective	Creating experience, decreasing experience barrier, interactivity, content creation, unique image, relationships, complementaries through partners, complementaries through leveraging virtual value chain, relational lock-in
Industry organisation perspective	Differentiation strategy
Resource-based perspective	Content creation, data-mining, change flexibility
Network and relations perspective	Combination of complementary resources, trust, cross-selling, content creation, relation through information, relation through interactivity
Market orientation perspective	Creating interface between IS and marketers, data mining, data analysis, personalize relation, interactivity, product mix and presentation, impulse buying and cross-selling, confidence dilemma
Brand perspective	Image uniqueness, quality association, consistency over time and media, dilution effect of complementaries

6. DISCUSSION

The discussion of our analysis findings has three main foci; (1) e-retail's strategic connection to traditional retail, (2) sources of intra e-retail strategic advantage and finally (3) issues highlighted by the competitive advantage map.

The first part of the discussion deals with our findings regarding the degree of innovation exhibited by the e-retailing phenomenon. It discusses these findings in relation to their implications for our research aim.

We then go on to discuss our findings regarding sources of intra e-retail competitive advantage. We try to clarify the relation between the key channel aspects found in the second part of the analysis and the sources of competitive advantage highlighted in the third part of the analysis. We further try to clarify the complex relationships between these different factors and present them in a graphical model.

Finally we discuss and highlight some secondary issues highlighted by this model before making concluding comments related to the study and its results.

6.1. E-Retail's Strategic Connection to Traditional Retail

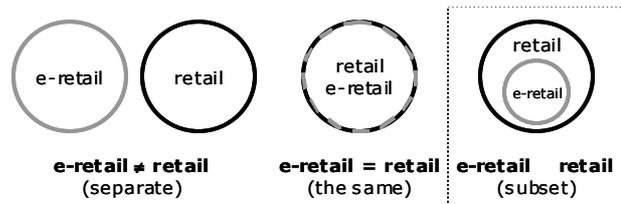
Although e-retailing exhibits some disruptive traits, our analysis found that it is best viewed as a sustaining development. Based on Christensen's (1997) discussion of a disruptive development's implications on

strategic management, we have drawn some conclusions regarding e-retailing by considering what this inversely implies for a sustaining development.

Seeing e-retail as mainly sustaining would imply that being first to market is not a necessity. It would also imply that success as well as strategic plans could be evaluated in a way similar to other retail arenas. We see this to imply that a strategy and competitive advantage in e-retail is linked to strategy and competitive advantage in retail as a whole.

This final statement raises the question of whether it is useful to specifically focus on intra e-retail competitive advantage. In effect, does such a thing exist if e-retail and retail strategy are linked? Not only do we believe that it does, we further believe that this type of research focus is meaningful.

Figure 5
VENN DIAGRAMS OF POSSIBLE E-RETAIL – RETAIL RELATIONSHIPS



Although we have concluded that e-retail and retail strategic considerations are not completely separate, this does not directly give that they are exactly equal. We would advance that it is more useful to see e-retail as a subset of retailing as a whole (figure 5). Consequently, it is possible for a subset of the sources of competitive advantage in retail to gain extra importance in e-retail. This is shown in the second part of our analysis where we see e-retailing to show some characteristic traits that highlight certain areas of competitive advantage while decreasing the importance of others.

This conclusion is strengthened by our analysis that e-retail, although not being a disruptive change, is a radical change. This implies that new skills and competencies are needed in the organisation. Knowing what specific areas are important as sources of strategic advantage in intra e-retail competition then emerges as important in finding and developing these skills and competencies.

Three important implications can be drawn from this discussion; (1) the sources of competitive advantage in e-retail are also sources of competitive advantage in retailing as a whole and, consequently, advantages gained in the e-retail arena could be transferred to strengthen competitive position in retailing as a whole. (2) The e-retail arenas attributes make some sources of competitive advantage more important while others less important, when compared to retail as a whole. (3) There are synergies between retailing and e-retailing, making understanding of intra e-retail specific sources of competitive advantage important in order to know where to look for and leverage such synergies.

While there is no clear signalling value inherent in being either a brick & mortar or pure-play e-retailer (CGE&Y, 2000) our findings suggest that there are advantages to be gained through being a multi-channel retailer. In contrast we have not drawn any conclusions regarding being an established actor or a start-up.

6.2. Sources of Intra E-Retail Strategic Advantage

In the third part of our analysis we identified a number of sources of competitive advantage. They range from specific to being more general in nature. They also differ in which strategic perspectives they were identified from. In order to discuss these sources of competitive advantage we felt that it was necessary to take the analysis one step further and visualise the advantages, their internal relations as well as their relations to the key aspects of the e-retail arena. To do this we created a competitive advantage map.

Arriving at a Competitive Advantage Map

Combining our analysis of key aspects of the e-retail arena (section 5.2) with our analysis of the sources of competitive advantage (section 5.3) we found that these two aspects seem to be strongly interlinked. The sources of advantage highlighted by the consultants seem to stem from the key aspects of the e-retail arena. This implies that the arena key aspects influence the sources of advantage.

Having established that there is a relation between the arena key aspects and the sources of advantage the next step is to define the type of this relation. We believe that the relations can best be described from the perspective of *problems* and *opportunities*. In light of this we have defined the relations as; (1) *leveraging* a possibility created by a key aspect of the arena better than competitors, (2) *countering* a difficulty created by a key aspect of the arena better than competitors or (3) *handling* a key aspect that is a possibility for some strategic goals while being a difficulty for others. The third perspective can be seen as a hybrid between the first two.

In the second part of our analysis we found four key aspects of the arena. Looking at the context (positive/negative) in which these key aspects were used in relation to the sources of advantage (table 6) we

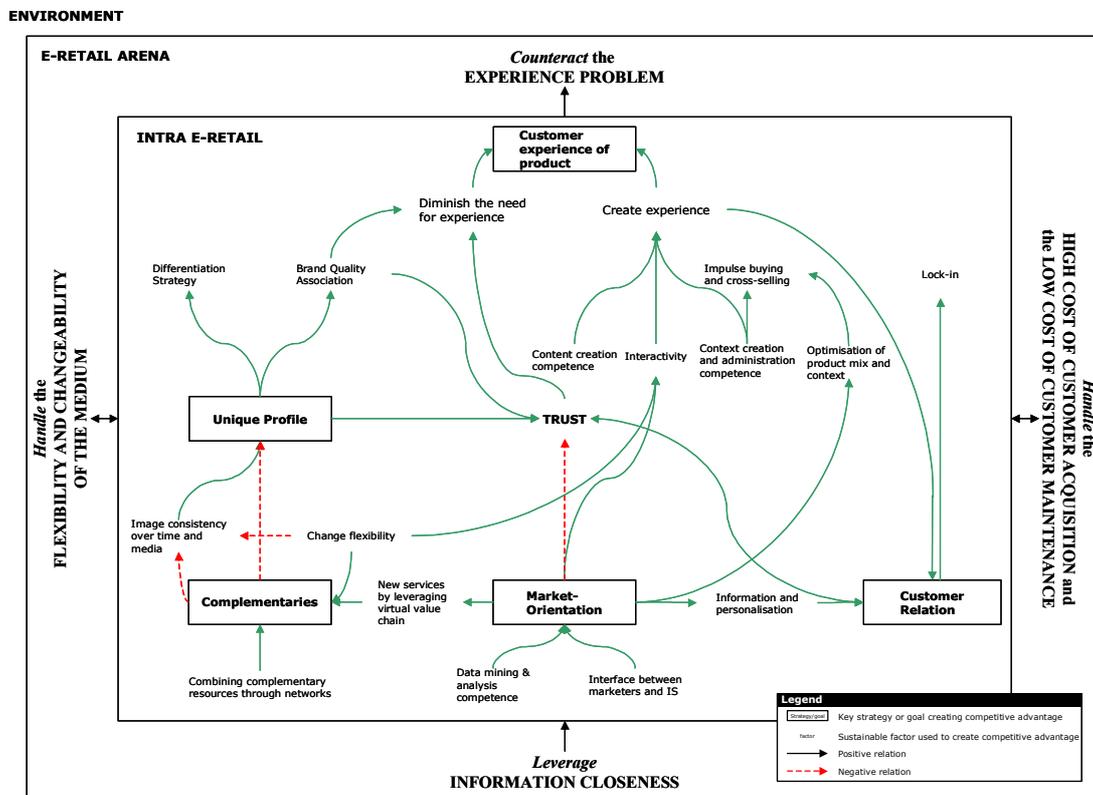
find that; (1) *information closeness is leveragable*, (2) the *experience problem* needs to be *counteracted* while (3) the *flexibility and changeability of the medium* and (4) *the high cost of customer acquisition – low cost of customer maintenance relation* need to be *handled*. In this way we arrive at an arena framework for understanding how the key aspects of the e-retail arena (e-retail arena frame in figure 6) influence the sources of intra e-retail competitive advantage (intra e-retail frame in figure 6).

In the third part of our analysis we found several sources of competitive advantage by studying the consultant interviews through the six strategic perspectives that we defined in the theory chapter (table 8). In order to really understand how they contribute to competitive advantage we felt that it was important to understand their internal relationships and how they affect and are affected by the key arena aspects through the leverage, counteract and handle relationships. We did this by asking ourselves three questions; (1) “How are the sources of advantage related to each other in terms of being on a superior or subordinate level”, (2) “How are these sources related to the leveraging, counteracting or handling of the key aspects of the arena?” and (3) “How are the sources of advantage related to each other in terms of influencing each other positively or negatively.

We believe that the sources of advantage identified can be seen on two levels; (1) a superior level which we call *key strategic goals* and (2) a subordinate level of *factors* affecting these key strategic goals. The key strategic goals can to a greater degree be seen as being affected by other factors and also have a closer relation to the key arena aspects. We have decided to highlight five such key strategic goals; (1) *creating a unique profile*, (2) *leveraging complementaries*, (3) *leveraging market orientation*, (4) *creating a customer relation* and (5) *satisfying the customers experience need* of the product. We have consequently decided to see the remaining sources of advantage as factors connecting and affecting these key strategic goals.

Most of these goals and factors of competitive advantage are not new, revolutionary or even different from e-retailing as a whole. Rather, we see them as being more or less in focus as a result of the key aspects of the arena. In the competitive map we have therefore placed the key strategic goals closer to those key arena aspects which influence them. We further see that both the strategic goals and competitive factors are connected through a complex series of relationships. We have visualised this through the creation of a model of intra e-retail sources of competitive advantage that we have chosen to call a competitive advantage map (figure 6, see appendix 4 for enlarged version).

Figure 6
COMPETITIVE ADVANTAGE MAP



Explaining the Competitive Advantage Map

In the competitive advantage map the central region describes the strategic goals and their contributing factors, including their internal relations. The strategic goals are arranged as if in a matrix with those affected by/affecting one or more arena key aspects through a leverage/counteract/handle relationship being closer to those aspects in the model. The inner square represents one firm's strategy to gain competitive advantage. The outside cube reflects the e-retail arena key aspects that affects this strategy while the enclosing environment represents the fact that the model can be extended with additional levels – for example retailing as a whole and/or a country and so forth – that affect inner levels. For example, including retailing as a whole as an external level would highlight our conclusion that retailing skills and advantages affect and are affected by e-retail due to the sustaining nature of e-retailing.

The model can thus be seen in three levels; (1) the strategic goals, factors and their relationships, (2) the interaction of these goals and factors with external key aspects and (3) the layering of different levels of perception from the central focus and outwards.

Some additional aspects require explanation. Firstly, it is important to note that this mapping is not exhaustive in the sense that many strategic considerations and sources of competitive advantage are left out. Sources of competitive advantage in outside layers – for example retail as a whole – that affect the inner layer of e-retail are not included. Thus the model primarily depicts strategic considerations to focus on given that the arena of choice is e-retail.

Secondly, trust emerges as a central concept. However, we believe that trust is somewhat different from the other elements of the model because we do not see it as a factor that can be directly influenced. Rather it is a central aspect of advantage that is directly or indirectly affected by all other factors and strategic goals.

Finally, the inclusion of market orientation as a strategic goal requires some explanations since it is also a strategic perspective used in the analysis. We have decided to use it as a strategic goal since the market orientation perspective is somewhat more focused than the other perspectives in the sense that it is not only a description of competitive advantage but also a competitive advantage in itself. It is really divided in several aspects – information gathering, dissemination and response design and implementation – but we found market orientation as a whole to be a major focus. Thus market orientation itself becomes a strategic goal, although it could be argued that in a factor model it would have been clearer to substitute “market orientation” with “information gathering” and regarding the outward related factors as responses.

Discussion of Sustainability

We have not analysed the sustainability of each source of advantage arrived at in our analysis. The notion of sustainability has rather been used consistently during the interviews in guiding the discussion towards areas that have led to these sources.

We feel that some additional comments concerning the sustainability of the different elements of the model are required. Firstly, we recognise that each goal is not necessarily sustainable in itself according to the durability-transparency-transferability-replicability definition. We see this as being related to their being on a higher level. Sustainability rather stems from the specific factors when aimed at a strategic goal. This dynamic relation of continual development of that goal is what we see as enabling a long-term (up to five years) continual lead, or competitive advantage.

6.3. Issues Highlighted by the Competitive Advantage Map

Several interesting issues emerge when studying the competitive advantage map arrived at in this study and taking the analysis one step further. These issues can be divided into two main categories; (1) *paradoxes highlighted by the competitive advantage map* and (2) *focus considerations highlighted by the competitive advantage map*.

The identification of these issues is enabled by the fact that we have synthesised results from several strategic perspectives. By studying intra e-retail strategy from several perspectives and then mapping the relations between the factors identified in each perspective we have been able to identify negative relations that would otherwise not have been obvious. Studying the phenomenon from several perspectives has also given us an understanding of the different foci involved.

Paradoxes Highlighted by the Competitive Advantage Map

The competitive advantage map consists of competitive factors and key strategic goals that have all been identified as important in creating competitive advantage. Internal paradoxes are created when some of these factors and goals have a potentially negative impact on other factors or goals. This can be due to either that (1)

the achievement of one goal relies on a factor that negatively affects another goal or its factors or (2) a strategic goal negatively affects another strategic goal or a factor leading to that goal.

In the competitive map red (grey) dotted arrows show such negative relations. These highlight the three paradoxes; (1) *long term consistency vs. short-term flexibility*, (2) *strategic complementarities vs. unique profile* and (3) *information gathering vs. trust*.

Long Term Consistency vs. Short Term Flexibility

There exists a clear clash between being consistent in the long run to create a unique profile, and the possibility to adapt to external demands in the short term. E-retailing highlights the weighing of long term consistency with short term flexibility.

On the one hand the Internet is flexible and changeable, which affects the customers expectations and demands. Flexibility is positive for the creation of interactivity, content and context required both to satisfy these demands and counter the experience problem. At the same time consistency and long term planning is required for a unique profile and commitment to relationships as well as traditional marketing and retailing functions. This creates a need to be able to unite flexibility and consistency in the same organisation.

Complementaries vs. Unique Profile

When studying the relationships in the competitive advantage map a possible conflict between creating a unique profile and leveraging complementaries is highlighted. This stems partly from the discussion on long term consistency and short term flexibility above. Flexibility relates positively to complementaries but negatively to consistency and thereby unique profile. At the same time, from a brand extension perspective, complementaries risk negatively affected brand uniqueness through dilution effects.

Information Gathering vs. Trust

Market orientation and trust have emerged as central aspects, both feeding many positive relations. However, market orientation can decrease trust since information gathering and the use of this information can be seen as an annoyance and an invasion of privacy. This negative relation can be moderated by the customers perceived monetary and non-monetary return value as well as by adjusting the intrusiveness of the information gathering and response.

Focus Considerations Highlighted by the Competitive Advantage Map

By looking at the factors in the competitive map we have identified three focus choices; (1) *inward vs. outward spiralling strategic focus* (2) *customer focused vs. competitor focused market orientation* and (3) *focus on technology as an advantage vs. focus on technology as a tool*.

We arrived at the first of these by considering the different aspects of the competitive map. It seemed that some looked more inwards to company internal factors while others looked outwards to external factors, leading to the question how this affects management focus. The second issue stems from the fact that market orientation was identified as a central aspect. This raises the question of what balance between customer and competitor focus is most advantageous. Finally, since e-retail is technology intensive, looking behind the competitive advantage map reveals a technology discussion. This leads to the question if technology should be focused as an advantage or as a tool.

Inward vs. Outward Spiralling Strategic Focus

The strategic considerations facing management can be seen as either focusing on internal aspects within the company and then leveraging these towards the external environment, or focusing on the environment and making decisions about the internal aspects in consideration of the external variables.

In the competitive advantage map (*figure 6*) we see that complementaries can be seen as a source of advantage influencing the unique profile and handling the flexibility of the medium. Focusing on complementaries can be seen as an outward spiralling strategic focus. However, market orientation is clearly externally focused before taking internal considerations into account, thus creating an inward spiral of strategic focus. The implication for managers from these examples is to remain open to both the internal aspects as well as the external environment in order to cope with the complexity posed by creating advantages within e-retail.

Customer Focused vs. Competitor Focused Market Orientation

Market orientation emerges as a central aspect in the competitive map. According to Day and Wensley (1988) market orientation can have either a customer or a competitor emphasis. One interesting focus is therefore how this emphasis can be theorised to gain in importance as the arena matures.

In our analysis we found customer focus to be the market orientation emphasis most discussed today. According to market orientation theory this is beneficial in a market characterised by high growth, low buyer power and high competitor hostility. Our industry organisation analysis found the e-retail arena to be characterised by high competitor hostility and low buyer power at the same time that the Swedish e-retail is

growing by 120% per year (Svensk Handels Internetindikator, 2001). These factors give credibility to a customer emphasis.

We would say that a mature market *de facto* implies low growth. Industry organisation analysis also hinted at two other factors that could affect emphasis; (1) *increasing barriers to entry* could act to decrease future rivalry and (2) although it is unsure if they ever be realised, the Internet creates the possibility for *increased buyer power*. According to Day and Wensley (1988) this shift towards higher growth, higher buyer power and lower rivalry implies that competitor focus will increase in importance.

Focus on Technology as an Advantage vs. Focus on Technology as a Tool

E-retail is often viewed through a technology focus, in part due to the technological nature of its medium. Different technological information systems often entered the conversation when discussing key strategic goals and advantage factors. It is interesting to note that despite this, the technology in itself was never advanced as an advantage. The technology focus highlighted by this study is the focus on technology as a tool rather than technology as an advantage.

6.4. Concluding Comments

Although e-retailing is a relatively new phenomenon, retailing in itself is an old, traditional and mature business. One question that we asked ourselves after reviewing our conclusions was “what happened to the actual retailing?” Retailing basically consists of selling and delivering a physical product to an end-customer, but the competitive map that we have developed consists of information, experience and complementaries. These findings could be seen as “internet hype” while important retailing functions such as procurement and delivery are missing.

There are several possible reasons, ranging from methodological errors to validity of the consultant perspective. We believe that the largest contributing factor is embedded in the research question itself. Our aim was to explore sources of intra e-retail *competitive advantage*. We have therefore delimited ourselves from what you *need to compete*. Of course, if you do not measure up to the minimum levels in the need-to-compete areas then you are at a *disadvantage*. This means that our results do not include how to become an e-retailer, nor a retailer for that matter. It deals with going from being an e-retailer to being a *great* e-retailer. It is also important to remember that we have delimited the study away from financial aspects. In the end, retailing is about the bottom line. You need to have customers, these customers need to buy products and advantages gained need to be leverage-able to the degree that they become a positive investment.

We believe that one of the contributions of this work is that we have explored a new and specific focus that we think will grow in importance. Our aim has been to give an orientating overview of factors for gaining competitive advantage in intra e-retail advantage. In order to achieve this we have tried to make a strong and clear delimitation of the problem area. Within this small focus we have then used a method with a wide scope in order to provide the overview aimed at.

One of the main challenges in this study has been to provide this wide scope using the limited time and resources available. In order to encompass as many perspectives as possible we have chosen a method that utilises organisational learning in order to get a wide empirical base. In order to encompass as many aspects of this empirical material as possible in our analysis we have collected a wide theory base. We have used these theories as perspectives when looking at the material. In this way we hope to have brought together and mapped a consultants view of intra e-retail competitive advantage in order to provide an initial orientation and clarification of the researched subject area: “what are the most important strategic sources of sustainable competitive advantage within a mature e-retail market?”

6.5. Further Research

Since we view this study as mainly explorative, and explorative in a general and orienting manner, we hope that it may give insights into possible further research within e-retail or e-commerce. We, ourselves, have come across several areas that could be of interest for further research of which we outline a selection below.

Continue the study with a larger empirical base. Having looked at our research question on a small scale and thus proved, at least to ourselves, that the aim and method can give interesting results we feel that it could be of interest to expand the study with a larger interview base in order to gain perspective and validity.

Expand study using e-retail managers as interviewees. In order to gain a different perspective on the same research question a similar method could be used to find a business perspective to complement the consultants’ perspective by using e-retail managers as interviewees.

Empirically test validity of described relationships. By doing this it would be possible to further the understanding of the interconnectedness of the strategic considerations proposed in this thesis. It would also be of interest to focus this aim further and specifically study the negative relationships identified in the competitive map. This would work towards establishing the relative weight of the internal paradoxes described in section 6.3. This would help managers weigh the advantages of, for example, leveraging complementarities against the possible negative effect this would have on unique profile.

Conduct a follow-up study when the e-retail arena has matured further. Since this study is forward-looking it could be of interest to test the results from this thesis when the e-retail arena has matured.

Strengths and weaknesses with the different perspectives. In this thesis we have used several different strategic perspectives to analyse intra e-retail competition. The aim has been to synthesise these into an integrated and somewhat different view on strategy. It could be of interest to study the relative strengths and weaknesses of the different perspectives used in this study with regards to their applicability to e-retail. An extension of this research aim could be to also include the integrated competitive map forwarded in this thesis in the above-mentioned comparison.

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Jonas Forslund

Daniel Hellquist

Jonas Malmgren

Anders Östlund

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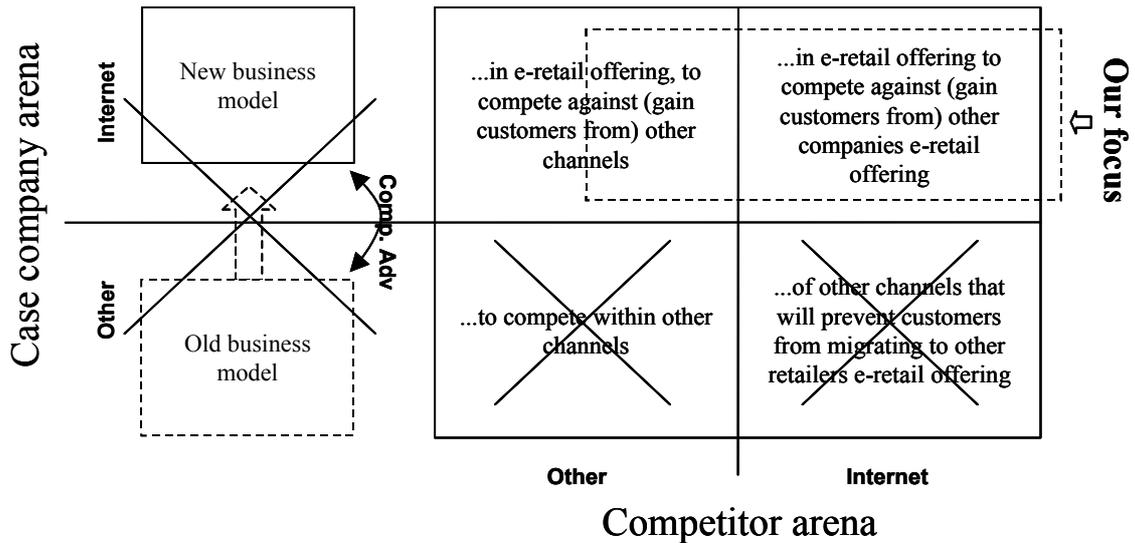
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APPENDIX 1: FOCUS OF THESIS

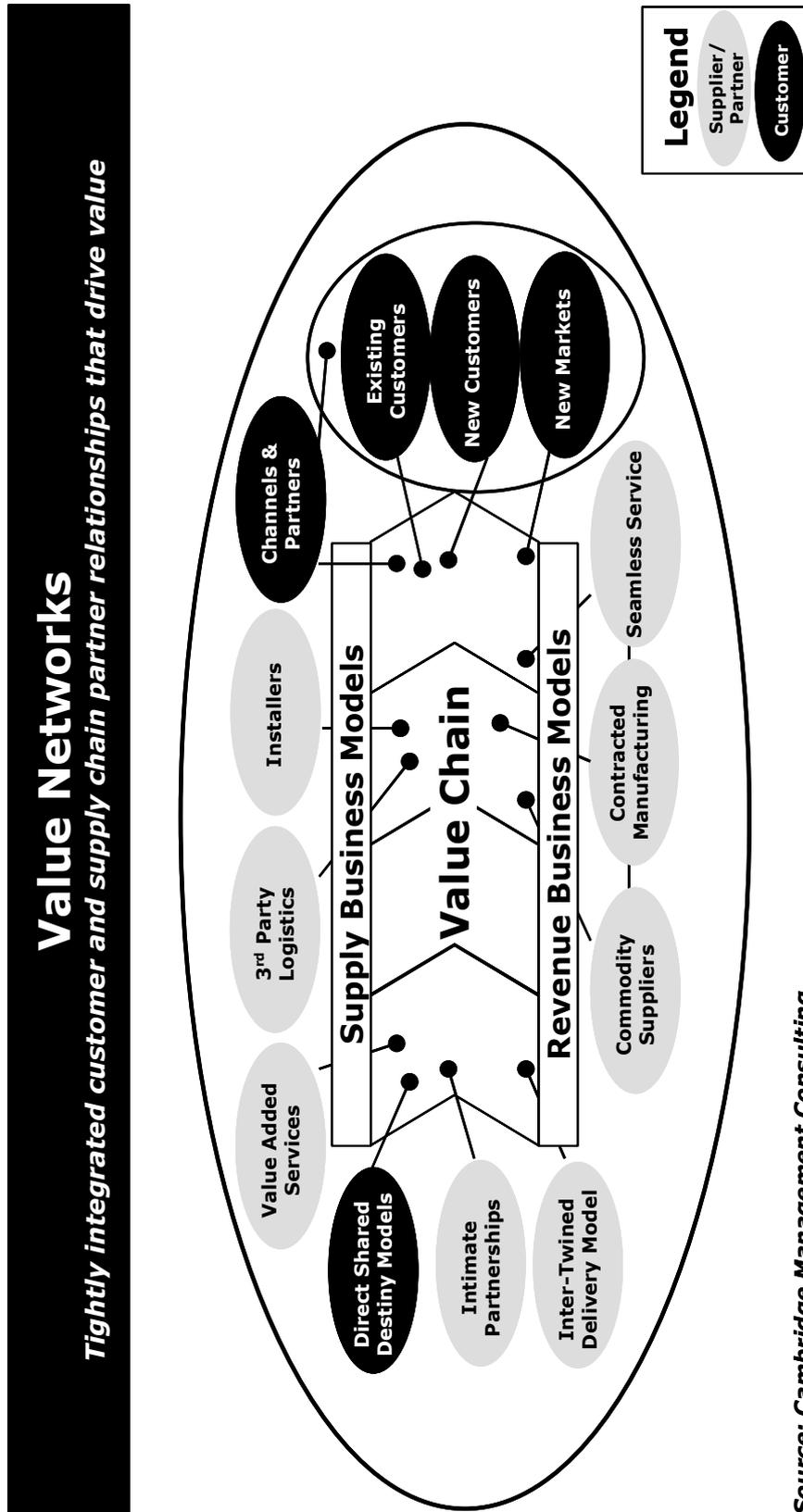
The figure below defines our focus in the thesis, as explained to the interviewees. The *case company arena* on the y-axis defines the channel that we focus on. The *competitor arena* on the x-axis defines the competitive focus we look at. The dotted box thus represents what we look at in this thesis – strategies for intra e-retail competition. The crossed-over sections define what we explicitly did not focus on i.e. explains some of our delimitations. This includes inter e-retail competition and the improvement of a company's existing business models by diversifying into e-retail.

Competitive Advantages/Key Success Factors



APPENDIX 2: EXAMPLE OF VALUE NETWORK

The picture below depicts an example of a value network in connection to where the different actors in the value network contribute to the value chain of a company.



Source: Glasgow, 2001

APPENDIX 3: DIVISION OF EMPIRICAL FINDING INTO PERSPECTIVES

In the table below, we have divided the empirical data into the different strategic perspectives used in the theory chapter and the analysis part three. This was done in order to support the analysis of the material.

	Company A	Company B	Company C
Information Economy	<ul style="list-style-type: none"> • There are experience and non-experience goods where the level of experience depends on the physicality, homogeneity and price of product • Freedom of choice are more important than lock-in of customer 	<ul style="list-style-type: none"> • Creation of new value-added services in relation to the product and structured added sales • Bonus programs can be used to lock in customers, in conjunction with a content-filled presence 	<ul style="list-style-type: none"> • Learning lock-in not possible for first 5-25% of customers since they are technology proficient reducing the learning barrier • E-retail offers the opportunity to skip middle-men and reduce the distribution machinery • Possible to create advantage by offering a full-service solution • Creating synergies between the real world and e-retail.
Industry Organisation	<ul style="list-style-type: none"> • High technology costs hinder small companies • Strong unique brand decreases focus on price 	<ul style="list-style-type: none"> • E-retail is best suited for niche products and a focused customer group • Companies look for greater control over the value-chain making it possible for producers to sell directly to customer • Price competition difficult • Access to information and high costs of building relationships create switching costs and barriers to entry • Many retailers on the way to the net 	<ul style="list-style-type: none"> • Advantages in procurement can be created through scale, learning and infrastructure • Goods are price sensitive since the Internet is best suited for non-unique goods • Positioning in relation to competitors in order to create uniqueness • Important not to try to be too much but rather focus on areas of expertise. Also increases possibility to create unique profile. • There will be several actors with a high degree of efficiency making it a hygiene factor • Easy for customers to "shop around"
Resource Based	<ul style="list-style-type: none"> • Need to combine young internet employees (creativity) with traditional economy employees (money) to create buzz • Knowledge about how to create internal structures linking people/process/technology for continuous information gathering and analysis combined with a learning culture and content management • Creating interfaces between information tools and marketers who can analyse and use data • People with data mining and analysis skills • Difficult to combine organisation that supports the fast directional changes enabled by the Internet with traditional market departments long-term planning • Group working with selling through images/creating experience • Competence and culture supporting added-sales 	<ul style="list-style-type: none"> • Content creation • Managerial awareness of the need for group working with information mining • Internal efficiency and flexibility enabling the creation of new value-added services 	<ul style="list-style-type: none"> • Negotiation and procurement competence • Since technology is standardised the edge lies in the competence to use it and analyse information, for example collaborative filtering • You need to be able to communicate what you are good at, what your unique advantage is
Networks and Relationships	<ul style="list-style-type: none"> • Outsourcing not useful for customer processes or on brand level • Outsourcing/in-sourcing dependent on company strategy but could be used to create complementary offers • Information aspect enables cheap customer relation and personalization • The higher the experience aspect of the good the higher the interactivity in customer contact needed 	<ul style="list-style-type: none"> • Commercial contact networks to create content and enable cross selling/network of goods • Structural distinction and innovative distribution in cooperation with partners in commercial contact network • Community building to create customer relation. • Customer is worth more the longer the relation has been in place and is less likely to change retailer since can not transfer information relation is built on • Personalification to tackle cost of customer acquisition 	<ul style="list-style-type: none"> • Internet reduces investment barriers thereby making the creation of physical and virtual alliances easier • Important to cooperate with the right companies in order to create a full-service solution that satisfies customer demands • Creating synergies between the real world and e-retail. • For a customer to be satisfied she needs similar experience in different areas of virtual alliance • A retailer needs to help the customer by guaranteeing quality of partners • To make money in retailing you need to sell to the same customer several times by motivating repurchases

	Company A	Company B	Company C
Market orientation	<ul style="list-style-type: none"> • Current customer focus in market intelligence gathering may shift to competitor focus • Need for processes that are able to lift information to create connection between vision, market plan and activities • Possibility to analyse what products sell and why in order to act on this information (for example stop selling or try to make sell more) • Possibility to analyse product sales and customer buying patterns to leverage cross-selling and create added sales • Gathered information needs to be shared in organisation 	<ul style="list-style-type: none"> • Information about the customer enables you to create an information based personalisation lock-in since customer will lose built up relation if she changes retailer • Possibility to learn to know customer (Costs time, money and customer confidence), but it is hard to create loyalty since every meeting is to short • Organisation converting information to action gains advantages 	<ul style="list-style-type: none"> • The Internet brings large information and adaptation possibilities • In order to create a consistent profile you need to know who you are for which can be done by asking questions and analysing buying patterns in order to adapt the offering accordingly • The creation of the action that is needed on the e-retail site is simplified since the Internets enables easier sensing of customer behaviour and demand • Collective filtering is a technology that could give an edge in customer understanding
Brand	<ul style="list-style-type: none"> • Strong brand decreases focus on price • The net creates a battle for customer awareness • All aspects of the e-commerce site (ergonomics, products, information, perceived back-office complexity) should help create "the buzz" - creating and communicating a unique profile and creating an interest for the site • Creation of unique profile requires consistency between different media and over time, which is difficult due possibilities for change in E-retail • Brand online acts as a mediator for quality in high experience products 	<ul style="list-style-type: none"> • Clear and consistent profile with customer focus is imperative • To create customer loyalty through brand identification the product must live up to claims • Using brand in other areas/add extra services and generating new products with brand in conjunction with the net 	<ul style="list-style-type: none"> • Positioning towards customers is important • The brand is a mediator of quality since the customer can not effectively evaluate the product • It is very easy to change profile on the internet making consistency a problem • Brand and profile consistency is important since it affects customer loyalty through brand interest and perception of quality • Complements should not be created for the sake of creating complements. The whole needs to maintain a uniform profile • The brand of both the supplier and producer affects perception of quality and security • High quality can be a competitive advantage that allows the retailer to charge higher prices

