



Deriving web usage strategies for online sales: A decision framework and empirical exploration [☆]

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ABSTRACT

The primary objective of this paper is to explore possible web usage strategies for online direct sales. For this purpose, this paper proposes a framework that can help managers to utilize their web site as a sales channel. This framework is, based on two factors: (i) channel conflict and (ii) web appropriateness. Sixty-three Korean firms across 13 industries are selected as the sample base for an empirical investigation. Our analysis results suggest four web usage strategies. The *channel relationship enhancement* strategy attempts to strengthen relationships with existing off-line sales channels. The emphasis of the *customer relationship enhancement* strategy is on the organization-to-customer relationship via the web. *Collaborative transformation* focuses on the use of a web-based sales channel via collaboration with existing channel partners. *Quick transformation* results in an aggressive and quick transformation into an online channel. Our findings are more likely to help managers to formulate web usage strategies that can lead to competitive advantages.

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1. Introduction

While some Internet companies have built strong brands and defensible business models, many pure players have experienced major setbacks on the stock market. The technology markets crashed along with the collapse of a number of pure players (Evans & Wruster, 1999). As a consequence of these cascading failures, managers realize that the key question is not whether to deploy Internet technology, but how it should be deployed (Porter, 2001). Attention is currently shifting to off-line companies that endeavor to use the Internet as a complement to traditional ways of competing (Pateli & Giaglis, 2004). In particular, managers are currently seeking to incorporate the Internet into their new direct sales channels, as sales conducted via the Net have grown as fast as, and in some cases faster than, those conducted via traditional channels (Nair & Pleasance, 2005). By adopting the Internet as a direct sales channel, firms can sell their products and services directly to their consumers, frequently at lower prices, thus reducing

costs. They can bypass intermediaries such as distributors and retailers, thereby resulting in improved competitiveness (Lee, Lee, & Larsen, 2003). For example, Dell rapidly adopted the web as a direct sales channel and significantly increased its revenues (Korper & Ellis, 2001). Managers are currently becoming increasingly dependent on the Internet, in order to create business value (Cao & Li, 2007).

However, the decision as to whether a firm should implement a business web site as a direct sales channel is more difficult than it might appear. Firms are attempting to reconstruct their sales channels in response to shifts in consumer shopping behavior; this restructuring inevitably induces conflicts among the channel members (Turban, King, Lee, Warkentin, & Chung, 2002). Channel conflicts are considered to be the biggest obstacle to the adoption of the web as a direct sales channel. A survey conducted by Forrester Research reported that 66% of manufacturers felt that channel conflicts were the largest issue they faced in their online sales strategies (Gilbert & Bacheldor, 2000).

Channel conflict is not the only factor that requires attention in electronic business. The appropriateness of the products or services being offered over the web must also be considered. Certain products or services appear more appropriate for online direct channels (Rosen & Howard, 2000). Firms may fail to seize the opportunities presented by the Internet if they do not accurately assess the suitability of their products for electronic commerce.

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The characteristics of products to be sold online should be considered in order to develop successful web strategies for online direct sales (Lee & Park, 2009; Venkatraman, 2000).

Although the fear of alienating existing channels runs deep among firms that attempt to adopt the web as a sales channel, a deeper fear is having no web usage strategy at all (Gilbert & Bacheldor, 2000). Therefore, the primary objective of this paper is to explore possible web usage strategies for online sales. Thus, this paper proposes a decision framework that can guide managers to select appropriate web usage strategies, thus helping them to properly utilize their web site as a sales channel. The framework is derived on the basis of channel conflict and web appropriateness. Sixty-three Korean firms across 13 industries are selected as the sample base for an empirical test. Four web usage strategies are suggested on the basis of these empirical results.

This paper is organized as follows: the related literature is surveyed and summarized in the next section. Then, the decision making framework for using the web as a sales channel is illustrated, followed by an explanation of the sample and measures for an empirical test. Subsequently, the analysis and results are summarized. This paper concludes with the discussion and implications, and limitations.

2. Literature review

Many variables for the prediction of web usage strategies have been previously addressed. These variables can be classified into technological (T), organizational (O), and environmental (E) categories on the basis of the TOE framework developed by Tornatzky and Fleischer (1990). Some studies have focused on technological context variables, such as perceived cost and benefits (Quelch & Klein, 1996) and technology competence (Levy & Powell, 2003; Zhu, Kraemer, & Xu, 2003). Organizational context variables including size (Cagliano, Caniato, & Spina, 2003) and level of commitment (Gilbert & Bacheldor, 2000) have been extensively investigated. Environmental context variables such as competitive pressure (Gilbert & Bacheldor, 2000; Levy & Powell, 2003) and consumer readiness (Zhu et al., 2003) are also investigated. Among them, channel conflict has been at the heart of many companies' web usage strategies (Gilbert & Bacheldor, 2000). Using web sites as marketing channels inevitably entails conflict, owing to the functional interdependence between channel members (Webb, 2002). Furthermore, the intensity and frequency of channel conflicts are continuously increasing (Lee et al., 2003).

Channel conflict can be defined as a situation in which one channel member perceives another channel member to be engaged in behavior that prevents or impedes him from achieving his goals (Gaski, 1984). Conflicts occur when a firm sells products in the same market via more than one distribution system. Similarly, the Internet channel conflict occurs when either the Internet or the traditional channel targets customer segments that have been already served by the other (Bucklin, Thomas-Graham, & Webster, 1997).

The discussion has focused on overall channel conflict management approaches, including channel conflict management strategies in electronic commerce. For example, Bucklin et al. (1997) previously provided a decision making framework for channel conflict management based on the importance of threatened channels and the prospect of destructive conflict. They proposed four channel conflict management strategies: (i) act to avert or address conflict (for high importance of threatened power and prospect of destructive conflict), (ii) allow threatened channels to decline (for high importance of threatened power but low prospect of destructive conflict), (iii) look for opportunities to reassure threatened channels and leverage power (for low importance of threatened

power but high prospect of destructive conflict), and (iv) do nothing (for low importance of threatened power and prospect of destructive conflict). Ten ways to avert dangerous channel conflict were also outlined. Lee et al. (2003) suggested a four-stage practical approach for managing channel conflict and addressed the measurement scales for identifying channel conflict styles. On the basis of manufacturers' concerns for themselves and for their intermediaries, they also proposed five possible channel conflict management strategies: intermediary support (low concern for self but high concern for intermediaries), differentiation (high concern both for self and intermediaries), conflict avoidance (low concern for self and intermediaries), channel absorption (high concern for self but low concern for intermediaries), and compromising (for average concern for self and intermediaries). Li, Mitra, and Matlay (2004) previously presented channel conflict resolutions based on the manner in which small manufacturing firms manage potential conflicts between channel distributions in the adoption of electronic commerce. They determined that inter-firm networks, policies, and communication are the principal instruments used to prevent potential conflict. Four different channel conflict management strategies – pricing differentiation, product line differentiation, click to find a dealer nearest you, and credit sharing – were identified. However, this research did not describe how and when companies can adopt the proposed strategies. Webb (2002) described strategies for proactively managing channel conflict, both externally with channel partners and internally among subunits responsible for managing channels. Twelve conflict management strategies were developed. The first eight strategies were related directly to marketing mix (i.e., pricing, distribution, promotion, and product), and the final four focused on channel communication and coordination.

Some studies have restricted their focus to channel conflict management strategies. For example, Bendix, Goodman, and Nunes (2001) developed a channel conflict strategy matrix to provide optimal channel change strategies. On the basis of market power and channel value added, they suggested four channel conflict management strategies: compete (for high market power but low channel value), forward integrate (for low market power and channel value), lead (for high market power and channel value), and cooperate (for low market power but high channel value). Lee and Shu (2005) proposed four models of channel conflict management – functional decomposition, cloning, forward integration, and strategic industry alliance – among channel members based on forward integration decisions and optimal channel assignments. They insisted that functional decomposition (i.e., a company provides product/service information, while maintaining its traditional channel) works best when it is difficult to complete transactions on the Internet. Cloning (i.e., clone an existing channel function on the Internet) is the optimal strategy in cases in which a company can freely use both traditional and online channels with low conflicts. Forward integration (i.e., bypass traditional channel and go directly to the market) is used when service and transaction-related functions can be automated by the Internet. Strategic industry alliance (i.e., form an alliance and bypass traditional channel) works best for the oligopoly market where a number of big companies dominate the majority of the market. Table 1 summarizes the previous studies.

The synthesis of the above studies shows that this important topic has received little attention from academia. The previous studies have explored channel conflicts in the Internet on a conceptual level in isolation. There is a need for further empirical research if we are to understand the factors that affect Internet channel conflict, and how it can be effectively managed (Steinfeld, Bouwman, & Adelaar, 2002). Furthermore, previous studies have not explored the effects of the product characteristics on channel conflict management, despite their importance (Li et al., 2004; Venkatraman,

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