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Abstract This article presents the open-market paradigm in the context of digital convergence and proposes strategic directions for open-market participants. Although not a new phenomenon, open market has become the most popular e-business model, linking millions of buyer and seller individuals (Customer to Customer: C2C). This article examines the drivers of digital convergence that enable the open-market paradigm and conducts industry and Blue Ocean analyses for open-market business. Finally, a real-world application – the Cyworld market of Korea – is presented as an illustrative example.

Keywords Customer to Customer (C2C) · Open-Market · Business Strategy · Blue Ocean Analysis · Case Study

1. Introduction

Information and communication technology (ICT) has changed the business environment drastically. One of the most significant forces changing the business environment is digitization, requiring firms to adopt new business paradigms (Park, 1999). New business models created by digitization have been the driving force behind converging markets and industries -- shaping power structures between buyers and sellers, industries, and people's shopping patterns.

One such business model, the "open market," is a market place where individuals and businesses can interact directly as buyers and sellers. The most widely used form of an open market is the online auction. With the adoption of Internet technologies, communication technologies, and digital technologies, many C2C transactions occur in open markets. In the retail clothing industry, the C2C open-market paradigm has affected the purchase patterns of customers and shortened the lifecycle of products. The paradigm has also changed the roles and increased the power of buyers in product selection, marketing, and sales (Auction.com, 2007). In fact, the open-market model already represents about 80% of the $100 billion Korean e-commerce market (Jung, 2006).

Digital convergence has made possible the open-market paradigm, as technology convergence is the main driver for such development. For big and small firms alike, it is not easy to survive and succeed in the new digitalized competition (Hewlett Packard, 2005), as success in digital convergence depends on having the proper business strategy (Yoffie, 1996). But, even with a proper strategy, it may be difficult for C2C open-market participants to survive in this rapidly-changing environment if they do not have the necessary resources and know-how related to running an online business.

The relevance of open-market to digital convergence and the strategic directions of open markets have yet to be studied. This article reviews research related to digital convergence strategies, discusses digital convergence from a strategic perspective, and suggests business strategies for open markets; it provides a strategic analysis of open markets applied to social networks and provides strategy implications built upon a Blue Ocean analysis. This paper also discusses how small business owners can successfully implement the C2C open-market paradigm.

2. Open-Market Paradigm

As mentioned earlier, an "open market" is defined as a marketplace where many parties (individuals and businesses) can sell their products for a negligible fee (Jung, 2006). C2C is the main business format in an open market. As evidence of popularity, the use of the C2C open-market paradigm has increased sales from open markets six-fold between 2003 and 2006, while sales in mega-mall markets have decreased by 40% (Jung 2006). Since there are low barriers to entry into open markets, price competition can be fierce and purchasing costs can be low. Sellers try to provide something unique regarding their products or services to differentiate themselves from others.

One example of an open-market participant is GoldBug (goldbugmall.com), owned by Ms. Hwang in Korea (Kim, 2007). She opened her online shop in 1992 and earns $5,000 to $10,000 dollars monthly. Her advantage in successfully managing the business involves understanding current customer needs, providing active responses to the questions posted on products, and efforts to build trust with customers. Ms. Hwang has more than 4,000 registered customers, and more than 20% of her revenue comes from repeat buyers.

Another example of an open-market business owner is Ms. An (SohoWorld, 2008). She sells Zanabili soap, which is made with olive oil in Syria. While the soap was famous in many other nations, there was no name recognition in Korea. To make the superiority of their product known, Ms. An and her associaters visited many community sites in portals and social networks, and this word-of-mouth effect brought 3,000 new customers to the open-market site (www.r2n.co.kr). A key part of their open-market strategy involved advertising the brand online.

Advertising and the influence of customers in purchasing are especially important in a C2C open market setting. In the above examples, Ms. Hwang and Ms. An used social networking via the Internet platform to develop a presence and reputation.

3. Digital Convergence Classification

Convergence has been widely discussed in theory and practice and has a variety of meanings. In the electronic commerce context, convergence typically refers to digital convergence. Info.org (2005) defines digital convergence as “the trend for various ICTs to become digital and for CTs to be based on packet switching and to operate over a common network infrastructure.”

There are three majors types of convergence -- technological, market, and industry convergence -- and each of the three types can influence the open-market paradigm. Plus, there is a relationship between the three types of convergence; technological convergence can be a prerequisite for market and industry convergence -- that is, market convergence and industry convergence may require technological changes.

Technological convergence. Yoffie (1996) defined technological convergence as the unification of technology functions or features – the union of previously distinct products that employ digital technologies. This technological convergence has changed the retail environment; consumer power has increased, and customers are empowered to become sellers via the various technologies and convergence. For example, Internet-ready cellular phones allow customers check the prices of products online before they make a purchase in a physical store. Reviews of products or services are accessible with the touch of a button on a cell phone. Texting services on mobile phones, enabled by a portal or social network, enables easy advertisements for C2C sellers who are looking for low cost alternatives to traditional marketing methods. Voice over Internet Protocol (VoIP) enables resource-constrained open marketers to reach their potential customers and maintain current clients, all with minimal phone bills.

Market convergence. Greenstein and Khanna (1997) present two types of convergence: *convergence in substitutes and* c*onvergence in complements*. "*A convergence in substitutes* implies that formerly-separate products or services become more interchangeable from a user perspective" (Bauer et al., 2001). Netflix shows a pattern of market convergence -- more specifically, a convergence in substitutes -- by merging formerly-separate services: rental service and delivery service (Bauer et al., 2001). A c*onvergence in complements* creates synergy when two or more products/services are combined (Greenstein and Khanna, 1997). iTunes illustrates this convergence in complements, as Apple produces iPods, mp3 players, and owns iTunes (an online music service). In sum, Netflix and iTunes Music Store are good examples of how market convergence has brought about new business models. Since both are enabled by common Internet technologies, we can view them as products of digital convergence, as well.

In addition, when small businesses and individuals complement their weaknesses in expertise, experience, skills, and knowledge through collaboration, they too are employing a market convergence strategy -- more specifically, a convergence in complements. Combining portals' network economics (the ability to attract many visitors), platforms, and technologies increases the participants' flexibility to meet changing market needs and to focus on niche segments.

Industry convergence can be defined as "a confluence and merging of hitherto separated industries, removing entry barriers across industry boundaries" (Lind, 2004). As technological convergence increases, boundaries between industries become ambiguous and overlap until they finally converge (Kaluza et al., 1999). A classic example is shown in Figure 1, where four industries -- information technology, telecommunication, media, and consumer electronics -- are merging into a single as yet unnamed industry. The most vivid example is the online community converging with information technology and communications.

In sum, digital convergence is both the enablement and embodiment of the open-market paradigm. Further development of technologies and methods in converging technologies, markets, and industries will give C2C sellers a competitive edge in this Web 2.0 era.

Insert **Fig. 1** The Popular Image of Convergence

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4. Digital Divergence

Digital convergence provides opportunities for businesses to seek out uncontested market spaces. However, convergence can also pose a threat to large companies lacking the flexibility and agility to adapt to the fast changing environment and meet the diverse needs of customers. There are two issues firms face in digital convergence: digital divergence and value destruction.

Digital Divergence (the Long Tail). With the advent of digital convergence, firms might expect that such convergence would dominate the markets and unify different industries into one gigantic industry. However, digital convergence also yields digital divergence, sometimes called the "long tail" (Chris Anderson, 1994). The long tail model describes how diverse customers' needs have become with technological convergence. Internet technologies allow service providers to have a potentially unlimited selection of products and the needs of customers become diverse as they discover their neatly trimmed taste. Perhaps, this long tail can 'wag the dog," as Anderson points out: "it is an example of an entirely new economic model … Unlimited selection [*enabled by the Internet technology*] is revealing truths about what consumers want and how they want to get it in service after service, … People are going deep into the catalog, down the long, long list of available titles, far past what's available at Blockbuster Video, Tower Records, and Barnes & Noble. And the more they find, the more they like. As they wander further from the beaten path, they discover their taste is not as mainstream as they thought (or as they had been led to believe by marketing, a lack of alternatives, and a hit-driven culture)." (Chris Anderson, 1994)

The physical market's economies of scale in terms of selection of product do not apply in the online market (Anderson, 1994). Those who discover the niche needs of customers will be the ones with the opportunity to serve those customers.

5. Open-Market Paradigm as a Change Agent

As we know, ordinary people can participate in creating, distributing, and evaluating content on the Web. While an open market provides products or services at competitive prices, *the* value proposition that open-market sellers offer to the buyers is their unique and creative content (Jung, 2006). This content, through individual participation, brings changes in the economy, industry, and organization (Kwon et al., 2007).

Changes in the Economy. In the Web 2.0 enabled environment, the unmet needs of customers are more easily satisfied. SMEs and open-market sellers are more competitive now than ever due to the technology-enabled marketing, product information gathering, and customized Web services. Digitalization and the Internet have enabled one-person enterprises to move into the new market.

Changes in the Industry. User Generated Contents (UGCs) and one-person media blogs show how that industry is changing, pushing traditional media to be more creative.

Information shared with the world by individuals is read and recognized as readily as that created by traditional sources. The price of owning technologies and technological products is decreasing. The Internet, PCs, cellular phones, digital cameras, and other technological products are converging and becoming commodities. The Gartner Group (1999) developed the “Convergence Hype Cycle” to show typical trends of convergence, which illustrates how convergence has affected ICT-related industries (Figure 2).

Insert **Fig. 2** The Convergence Hype Cycle

ICT is now entering the “plateau of productivity,” where maturing technology becomes a commodity that is widely used and whose functionality and productivity are taken for granted (Lind, 2004). As shown in Figure 2, ICT was sufficiently commoditized and convergence within the traditional business models was no longer effective as early as the year 2001.

Changes in organizations’ tactics. With the growing power of customers, what they say online, what they do, and what they think are critical to companies. Opinions of customers are actively reflected in product development and service improvements. UGCs, which comprise writings, music, videos, and other media forms, enhance the features and characteristics of open-market products and services. Sometimes, companies make their marketing materials appear more like UGCs to develop a fake “word-of-mouth" effect. Companies seek to participate in popular social networking sites or other Web 2.0 applications to increase their share of potential markets and to benefit from the network economic effect.

6. Strategic Analysis of the Open Market

To provide a direction for open-market participants, we will first briefly outline Porter's five-forces model of industry analysis, plus new value creation strategies using the Blue Ocean framework. We then apply these concepts to the case of Korea's Cyworld to illustrate open-market and convergence effects.

6.1 Industry Analysis

Michael Porter (1988) has employed five competitive forces to analyze the competitive landscapes within an industry. The five forces can have a major impact on the profitability of an industry, as well as the desirability of competing in that industry. That is, if the forces are positive the industry can be highly profitable and a desirable place to do business. If they are negative, the opposite can be the case. The five forces are: 1) threat of new entrants; 2) threat of substitutes; 3) bargaining power of buyers; 4) bargaining power of suppliers; and 5) rivalry among current competitors (Porter, 1998).

Obviously, industry changes, such as divergence, can affect the five forces, positively or negatively. Each such change will have to be examined individually. Kaluza et al. (1999) analyzed Porter's (1988) five competitive forces in the context of convergence. A later section of this paper applies five-forces analysis to the case of an open-market converging industry example – Korea's Cyworld.

6.2 New Value-Creating Strategies

C2C open-market firms need new strategies to deal with changing forces within the industry. The Blue Ocean Strategy, an emerging approach to business strategy, when coupled with five-forces analysis, can offer new insights.

According to its developers (Kim and Mauborgne, 2004), the goal of the Blue Ocean Strategy is to develop uncontested market spaces and render the competition irrelevant. In contrast, the traditional Red Ocean Strategy (red from bloody competitive battles) is to compete within the confines of the existing industry or to steal customers from rivals (Table 1). In a Blue Ocean, firms create new value for their customers. There are two ways to create Blue Oceans. One is to launch completely new industries, as eBay did with online auctions. The other is to find a Blue Ocean within a Red Ocean when a firm expands the boundaries of an existing industry (such as Apple's iPod in the USA or Cyworld.com, an online community firm in Korea), or by digital convergence.

Insert **Table 1** Red Ocean Strategy and Blue Ocean Strategy

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Kim and Mauborgne (2004) suggest a practical, four-action framework to achieve new value in the Blue Ocean Strategy. There are four actions (Eliminate, Reduce, Raise, Create) to create a new value curve. Each action has a key question as follows (Kim and Mauborgne, 2005).

- **Eliminate**: Which of the factors that the industry takes for granted should be eliminated?
- **Reduce**: Which factors should be reduced well below the industry's standard?
- **Raise**: Which factors should be raised well above the industry's standard?
- **Create**: Which factors should be created that the industry has never offered?

The application of these four actions is illustrated via the Cyworld example in the final section of this article.

6.3 Value Destruction

To be fair, we must also mention that convergence and industry changes can destroy value as well as create it. Many firms expect that digital convergence will bring new value creation. However, digital convergence can destroy value at the same time. As stated earlier, digital convergence can yield digital divergence and increase the threat of substitutes. As a result, competition among similar digital convergence products may become more intense. In this environment, it is hard for firms to create value without proper differentiation strategies.

Digital divergence and value destruction signify how small organizations can survive in the digital convergence age. SMEs (Small and Medium-Sized Enterprises) and open markets can meet diverse needs of customers and can be strong competition for the dominant players in niche segments.

7. Analysis of the Case Study: Cyworld Market

Cyworld.com is one of the online community firms in Korea. There have been many online community firms in Korea since the late 90s -- mostly unsuccessful. An exception is Cyworld.com, established in 1999 by five PhD students, using online community technologies such as two-way communication, music shop, and mobile service. This was an early example of digital convergence in the online community industry. Cyworld generated $ 216 million in revenue in 2007, and the number of Cyworld members reached 18 million in 2006 (Cyworld.com 2008).

7.1 Open Market with Digital Convergence Strategy

An open market is a business model which can be pursued by individuals who do not have sufficient resources to build and run a large storefront (Jung, 2006). Individuals who have creative and competitive items can sell their product in popular community or portal sites, such as Korea’s Cyworld, for a small fee.

Open-market businesses in Cyworld can be analyzed on the level of services and markets (European Commission, 1997). The Internet and Cyworld enable retail services to be extended over physical boundaries. Also, Cyworld, with superior products and services, can attract more visitors who may want to learn about the products or services offered in the market, but may stay longer to enjoy other services offered by Cyworld. The symbiotic relationship between two separate industries -- communication and retail industries -- satisfies each other's customer bases by offering converged services.

7.2 Industry Analysis for the C2C Open Market

Participants in the Cyworld market are affected by the five competitive forces pertaining to the industry. Each is discussed in the following paragraphs.

Threat of new entrants Generally, digital convergence brings down barriers to entry, negatively affecting the existing market players (Kaluza et al., 1999). The initial investment needed to set up a business in an open market is almost nothing, other than the inventory. In order to use Cyworld, all that sellers need are some basic knowledge of digital tools and the ability to generate pictures of their products.

Threats of substitutes. Due to digital convergence, products become similar in terms of product features and physical appearance. Markets can replace one another; the online market can be replaced by a physical market as its viability becomes established. And, online markets have been shown to replace and compete with physical markets. In addition, customer switching costs and brand loyalty are low in open markets.

Bargaining power of buyers. The bargaining power of buyers also increases in digital convergence and for open marketers (Kaluza et al., 1999. The strong buyer bargaining power of Cyword customers has the most impact on sellers' businesses (as discussed previously) due to undifferentiated products, price wars, fierce competition, and higher information levels (Porter, 1998).

Bargaining power of suppliers. In the case of open markets such as Cyworld, the power of sellers is not strong if they do not differentiate their products from others. Most business-enabling technologies are becoming commodities. If the products carried by the open marketers are commodities, there will be no differentiation among sellers.

Rivalry among existing competitors. The overall effect of digital convergence on rivalry among existing competitors depends on the industry characteristics. Most open markets are very competitive due to the low entry costs.

In sum, none of the five forces works in favor of C2C open-market owners. Still, the open market paradigm could be attractive for those that implement good coping strategies. Since industry forces are not working in favor of open market businesses, there is a need to seek out appropriate strategic actions and new value-creating approaches.

7.3 Four-Action Framework for C2C Open Market Business Model

Small businesses run by individuals in the Cyworld market can follow the four-actions (ERRC) framework to identify where they are in terms of finding their Blue Ocean. The Blue Ocean Four-Action Framework (eliminate, reduce, raise, and create -- ERRC) for Cyworld can be summarized as shown in Table 2 and is described below.

Insert **Table 2** ERRC Chart of C2C Open Market in Cyworld

Eliminate. First, C2C open markets in Cyworld *eliminated* anonymity. In online communities, many users adopt false names to hide their identities and remain anonymous. However, open market participants conducting business with their real identities leads to more trust in the transactions. Specifically, an open market in Cyworld -- called the Market -- is situated within the social network and people can click the sellers' or buyers' names to instantly go to the mini homepage -- websites where they can leave messages regarding buyers and sellers -- plus get personal information about the people. This feature makes both the person and the transaction more open and transparent.

In addition, the C2C open market within Cyworld *eliminates* people's need to go to other places to shop. Cyworld is a social network where people using it enjoy its portal-like services such as e-mail and news. Being one of the top-three visited sites in Korea certainly gives network economies to C2C open-market sellers. The existing Cyworld users are more likely to view the market section of the community site and purchase there since they do not have to overcome a significant learning curve. Customers are likely to have had conducted transactions with the community site to purchase cyber currency. Thus, those customers should feel more comfortable making purchases on the same site. Those who are looking for convenience and familiarity will look within Cyworld rather than going elsewhere.

Increase. The C2C open market can *increase* the diversity of products and services to meet the needs of niche segments. As trends for divergence and the long tail effect suggest, there will be more and more customers bringing their unique needs to the online market. Even though online mega marketers can cover some of the needs, those mega marketers will seek economies of scale more than open marketers will.

Also, open market sellers can increase individual ties with customers. The majority of the value of C2C open markets comes from sellers' ability to bring special value to customers. UGCs and personal ties between the buyers and sellers -- personal connection with customers -- are important for bringing repeat business and promoting favorable word of mouth effects. A ruined reputation is hard to recover, especially when the market uses real names instead of pseudo names and when the market is narrowly focused. Maintenance of a good reputation and excellent customer relationship management can be achieved when open market sellers value their customers.

Reduce. Open-market *reduced* technological difficulties for users, both buyers and sellers. One of the main characteristics of Cyworld.com community websites is "ease of use." This "ease of use" attracts older people and people with a reluctance to adopt a new technology. For sellers with limited resources and little technological knowledge, "ease of use" in designing and maintaining their storefronts is what brought them to the market.

Create. Finally, the C2C open market in the Cyworld should *create* a niche market, a Blue Ocean, by *creating* new values for the customers in several ways: increased diversity in product selections for the users and speedier delivery; one-to-one relationship with customers; and easier and more convenient access. Due to their smaller sizes, sellers are more agile and responsive to the changes in the environment. When the needs of customers change, C2C sellers can quickly respond to needs with new products or services since they have lower levels of inventory and target a small niche segment of market rather than a wide variety of customers.

7.4 Comparison with the Red Ocean Strategy

Market Space: In 2006, the size of the online economy was over $ 100 billion and it is continuing to rise (Jung, 2006). The size of C2C online business is expected to reach 80 percent of the total online economy in 2008, up from 14 percent in 2003 (Jung, 2006), while the portion due to mega-market players is decreasing. The opportunities for open market players are increasing.

Competition: As can be predicted from the changing sales figures resulting from the large scale competitors, the competition is fierce in the Red Ocean.

Demand: A Red Ocean strategy does not adapt well to the changing demands of customers. The diverse demands of the customers are more easily met by open-market players.

Overall, the market is changing and the competition is too fierce in a Red Ocean. Also, changing demands are better met by the open market players.

7.5 Findings: Problems and Success Factors

Competition in the Open Market: While niche open-market players will enjoy the uncontested market space, players without any specific value proposition will still exist in the Red Ocean. Since entry barriers are extremely low, many big companies are planning to enter to share the open-market pie. Traditional mega-marketers have the advantage of providing scale-based value. If individuals do not focus on a niche market or bring added value, such as attractive UGCs, they will face the Red Ocean.

Profitability of the Service Provider: The Cyworld market is the purest form of open-market platform in Korea, which allows only individuals to participate. However, it is not making as much in service fees as are others. To increase the profitability, other open markets, such as Auction Korea, Interpark, and LGeShop, allow participation from large companies. While Cyworld provides the purest form of C2C, problems with profitability might cause the service provider to abandon the service. Even though there are customers who look for uncommon items from open market sellers, there are more customers with generic needs. Those people focus on the cost aspect of the goods and services, since commoditization does not need much persuasion or word of mouth effects.

Network Externality: As the value of a network is equal to the square of the nodes, the key to success for the online community is the number of members. If the majority of people use a specific online community, that online community can become an industry standard. In addition, people have a tendency to settle down in a certain community due to the fact that it is troublesome to transfer files and data to move to other community websites (customer lock-in effect). Therefore, C2C market participants can capitalize on the network centrality of Cyworld, making the competition irrelevant.

Strategic Alliance: Another key success factor for open market players in Cyworld is strategic alliances. In the digital convergence world, strategic alliances are very important because it is so difficult for a firm to have all of the required core competencies. Borrowing the market space from Cyworld is a form of strategic alliance. Cyworld provides a platform, technological services, and a potentially sizable market for individual entrepreneurs without technical backgrounds, resources, and a large customer base. Both sides gain by working with each other. One potential for a strategic alliance is combining diverse open markets to pull their limited resources together, combining their products and services, thus satisfying the diversity of customers' needs. Individual sellers might make strategic alliances with each other to meet a variety of market niches rather than one.

8. Conclusion

Digital convergence has facilitated open-market business models such as Korea's Cyworld, enabling individuals to participate directly in the marketplace. By employing frameworks such as Porter's 5-forces and Blue Ocean Strategies, individuals and companies utilizing open market C2C business models are likely to have a bright and growing future.

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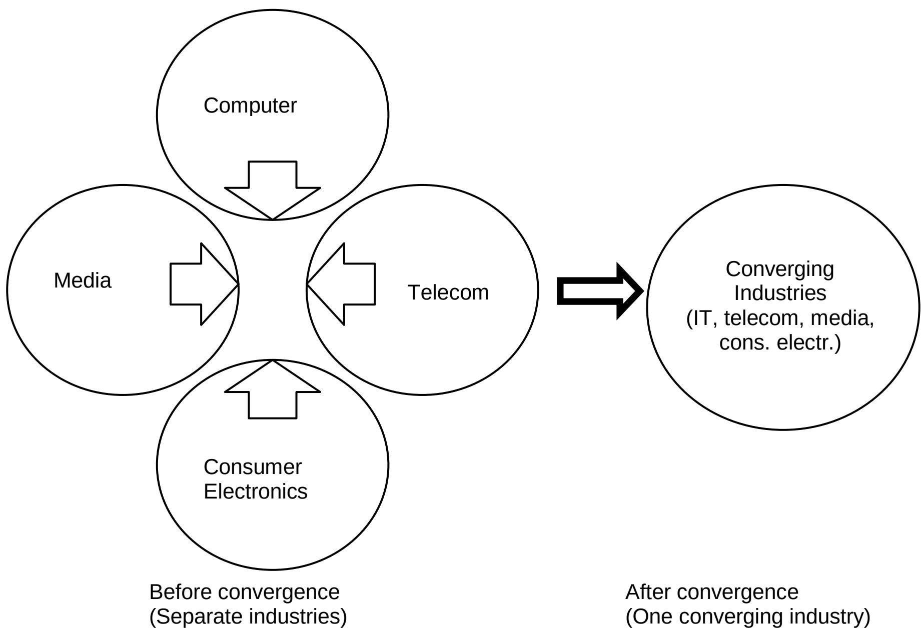
Yoffie, David B. (1996). Competing in the Age of Digital Convergence. Cali Manage **38**: 31-52.

FIGURE LIST



Source: Convergence: History of Firm Usage and Lesson for Firm Strategists by Jonas Lind (2004), working paper, page 3.

Fig. 1 The Popular Image of Convergence

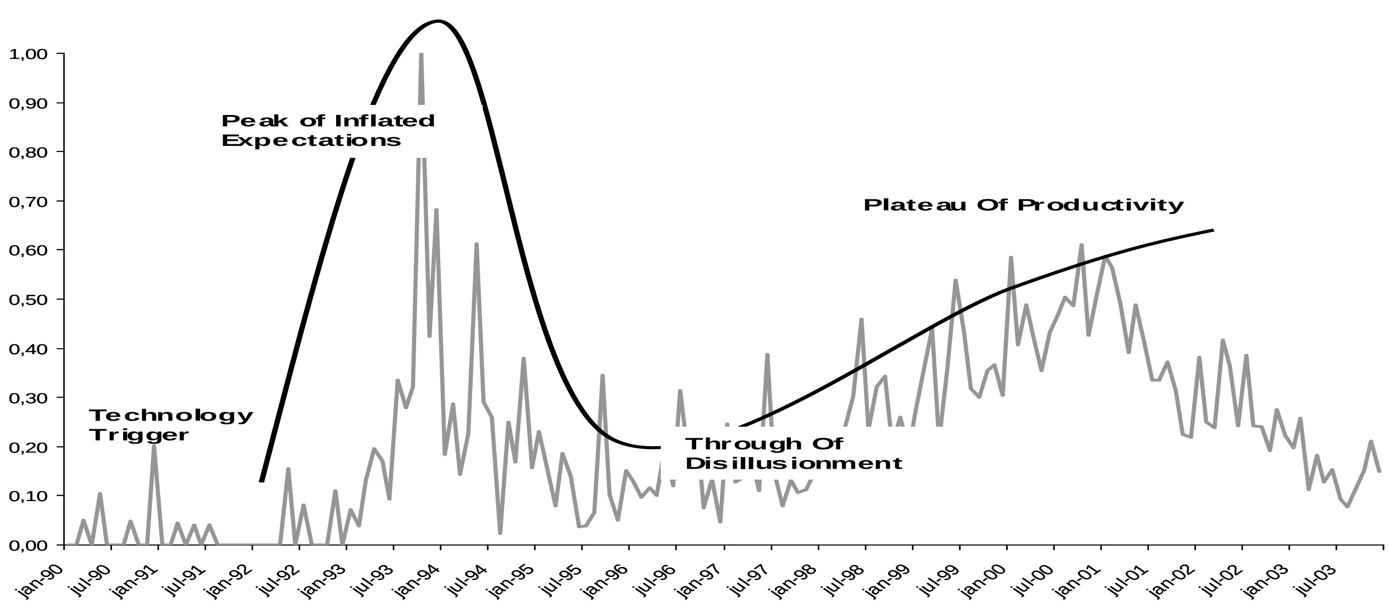


Fig. 2 The Convergence Hype Cycle,
adapted from Gartner Group

TABLE LIST

Table 1. Red Ocean strategy and Blue Ocean Strategy

Red Ocean Strategy	Blue Ocean Strategy
- Compete in existing market - Beat the competition - Exploit existing demand - Make the value / cost trade-off - Align the whole system of a company's activities with its strategic choice of differentiation or low cost	- Create uncontested market space - Make the competition irrelevant - Create and capture new demand - Break the value / cost trade-off - Align the whole system of a company's activities in pursuit of differentiation or low cost

Source: "Blue Ocean Strategy" by W. Chan Kim and Mauborgne, Renée (2004), *Harvard Business Review*, Oct. 82 Issue 10, page 81.

Table 2. ERRC Chart of C2C Open Market in Cyworld

Eliminate
Use of different identities online
Need to shop elsewhere
Raise
Product selection/Diversity/Availability
Linkage with customers
Reduce
Technological complexity
Create
New niche market
New kind of values
Customer satisfaction and loyalty