Internet-Specific Business Strategies Do Not Exist: 
An Analysis from a Resource-Based Perspective

by

Tatsuyuki Negoro*

1. Introduction

Just as in all other areas of business, competition occurs in the realm of online 
commerce. Naturally, not all competitors are destined to survive – only those who are 
able to distinguish themselves from their rivals.

What the author would like to argue in this paper is the absence of Internet-specific 
strategies. Many believe that there are special rules that must be followed in order to 
achieve success in online business. However, as far as resource-based theory is applied, 
this is a myth.

2. Current Conditions in the Online Retail Industry

There are two types of online retail businesses. The first type is "pure players;" these companies sell products only via the Internet (e.g. CDNow and eToys). Also 
referred to as "dot-coms," few of these businesses achieved success and most went 
bankrupt or were acquired by other companies.

* Tatsuyuki Negoro is a professor of Information Technology and Management at the 
School of Commerce, Waseda University, Tokyo, Japan.
e-mail: negoro@list.waseda.jp
http://faculty.web.waseda.ac.jp/negoro/english/index_E.html
**Online Retailers Who Went Bankrupt as of Dec. 2002**

- **Bankruptcy or pullout**
  - ValueAmerica
  - CraftShop.com
  - Reel.com
  - Brandwise.com
  - eve.com
  - Toysmart.com
  - living.com
  - RedRocket.com
  - Pets.com
  - eToys

- **Bought Out**
  - CDNow (Acquired by Bertelsmann)
  - Boo.com (Acquired by Fashionmall.com)
  - Peapod (Acquired by Koninklijke Ahold N. V.)

(Adapted from Maekawa (2003))

The second type of online retail business is "clicks-and-mortar." Under this model, companies with existing physical ("bricks-and-mortar") stores establish online outlets as a means of supplementing revenues. One example of a company in this category is Barnes & Noble, which launched an online bookstore to compete with Amazon.com.

In the U.S., the dot-com shakeout reached its peak around 2001, when numerous pure players went bankrupt; since then the online business environment has stabilized to a certain extent. It should be pointed out that, although many online businesses did go bankrupt following the dot-com boom, the online market per se did not diminish as a result. It has continued to grow. The same trend can be observed in Japan as well.

The "gold rush" phenomenon occurs in all rapidly-emerging markets. It is important, however, to remember that the concepts of online business and virtual markets were not entirely illusions. Let's take a look at the top ten U.S. online retail businesses in 2001.
Top Ten U.S. Online Retailers

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company</th>
<th>2001 Online Sales (Unit: USD million)</th>
<th>(* pure players)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Amazon.com*</td>
<td>$3,122</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Office Depot</td>
<td>$1,600</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Staples</td>
<td>$950</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Gateway, Inc</td>
<td>$775</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Costco Wholesale</td>
<td>$450</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Barnes &amp; Noble.com</td>
<td>$405</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Buy.com *</td>
<td>$395</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>QVC.com</td>
<td>$350</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Spiegel Group</td>
<td>$332</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>J. C. Penney</td>
<td>$324</td>
<td></td>
</tr>
</tbody>
</table>

(Source: Retail Forward, Inc. July 2002 Press Release)

No. 1 and No. 7 online retailers, Amazon.com and Buy.com, are pure players, while the remaining businesses belong to the clicks-and-mortar category. The top ten lists in 1999 and 2000 included seven and five pure players, respectively; we see that the number of top-ranking pure players decreased year-on-year. The size of the online market, however, continued to expand, led primarily by clicks-and-mortar businesses. While a few successful pure players have survived, clicks-and-mortar businesses account for most online success stories.

Most pure players eventually pulled out of the market, with the exception of a few heavy hitters like Amazon.com and eBay. Just like mail-order and door-to-door sales, pure players are expected to play a certain role in the future of commerce.

3. Amazon.com and eBay

3.1 Amazon.com’s Unusual Success Story

While clicks-and-mortar businesses continue to dominate the online retail industry, Amazon.com remains steadfast as a pure player. Since its establishment in 1994, the online bookseller finally became profitable in the last quarter of fiscal year 2002. It can be said that Amazon.com owes much of its survival to continued investments that made it possible to operate until profitability was achieved. Many investments were allocated to the development of the company’s back-end systems, which include databases, search functionality, and recommendation systems. Amazon.com spared no expense when it came to logistics, as well. As a result, it was able to establish itself as a brand name,
expand its customer base, and continually boost sales.

Are Amazon.com's prices the cheapest? Not necessarily; other online bookstores sell books in some cases at even lower prices. It would be most accurate to say that Amazon.com is able to attract customers not because it offers the cheapest prices, but because it offers prices that its customers find satisfactory. Additionally, lead-times are kept short and the Web site's recommendation system encourages repeat purchases. It has been said that more than 60% of Amazon.com's users are repeat customers. All of these factors have ultimately contributed to the company's profitability.

Another factor behind Amazon.com's success is the diversification of its business. In recent years the company expanded its product offerings beyond books to electronics, apparel & accessories and so on, forging partnerships in some cases that enabled the company to sell these products without having to stock them. This "Wal-Martization" of Amazon.com made it possible for the company to earn a commission on each sale. In summary, this scheme transformed the company's Web site into a one-stop shopping center, enabled the company to diversify its business, and created a virtuous cycle that contributed to an expanding customer base.

3.2 eBay's Success and Failure

eBay is a pure player that operates an online C-to-C and B-to-C auction business. It deserves attention because it has been profitable since its establishment and boasts an extremely high profit margin. While Amazon.com counts its logistics center as one of its primary business resources, eBay has no physical resources to speak of. The fact that there is no inventory for the company to manage also made it possible to operate in the black from the start.

3.3 Amazon.com & eBay in the Japanese market

The results of these two companies' entries into the Japanese market were very interesting. eBay, which had enjoyed overwhelming success in the U.S., finally pulled out of the Japanese market in March 2002 without once having achieved profitability. Meanwhile, Amazon.com, which had operated in the red for years before turning a profit, achieved profitability in Japan much earlier than in the U.S. Although it was a latecomer to the Japanese market, it was able to beat the competition and secure the No. 1 position in Japan's online bookstore sector. The law in Japan prevents booksellers from providing books at a discount rate. Therefore, Amazon.com's success in Japan cannot be
contributed to cheaper pricing, but to its efforts to distinguish itself from its competitors in other factors.

Amazon.com Sales and Profits/Losses
(Unit: USD1 million)

![Graph showing Amazon.com sales and profits/losses from 1995 to 2002.](Note: 1995 figures are for July-December only. Source: http://www.amazon.com/)

eBay Sales and Profits/Losses
(Unit: USD1 million)

![Graph showing eBay sales and profits/losses from 1997 to 2001.](Source: http://www.ebay.com/)

4. Clicks-and-Mortar: The Three Patterns

There are three different patterns evident in clicks-and-mortar business strategies. The first pattern involves establishing an online division in order to expand customer channels (customer interfaces). There are many points at which a company comes in contact with its customers; for example, when a company describes its products, when it
acquires information regarding its customers, and when it conducts a transaction. Expanding channels means providing a different interface for each point of contact. A company’s Web site may be the first point of contact with a customer; a salesperson interface, however, might be most effective for explaining product features; furthermore, a call center is a common interface used to provide after-transaction service. There are numerous variations, but what is certain is that once an online interface is established, it leads to the expansion of interfaces in sales and service processes.

The second pattern is where a company establishes an online arm so that it and the bricks-and-mortar arm complement each other. The No. 1 online bookstore in Japan used to be Kinokuniya. While that position is now claimed by Amazon.co.jp, Kinokuniya was not defeated. The Japanese bookseller giant continues to operate its chain stores, but it also has another advantage: it has sales offices that cater to major clients such as university libraries. Kinokuniya has positioned its online bookstore, BookWebPro, to complement the operations of these physical sales offices. For example, university staff can place orders with BookWebPro via their university intranets; once orders are picked, they are shipped in bulk by one of Kinokuniya’s sales offices, after which the individual books are delivered to the appropriate staff via the school’s parcel delivery system. Since individual orders are shipped together, shipping costs are lower; plus, this makes universities eligible for corporate discounts. In this case, it is possible for an organizational to partly support the cost of books as a kind of fringe benefit. Although universities are BookWebPro’s primary customers, the system could conceivably work for corporations as well. In this manner, BookWebPro complements Kinokuniya’s sales office operations.

It is not possible for Amazon.co.jp to establish an identical system, because Amazon.co.jp does not have the physical infrastructure (stores, sales offices) that Kinokuniya does. The system cannot work without maintaining both online and physical presences. In other words, synergy is the key.
Kinokuniya's B-to-E Business Structure
Member organizations can place orders for books with BookWeb Pro via their intranets.

The third pattern is where the online arm is established to provide support to the physical arm or vice-versa. A well-known example of this is TSUTAYA online, a famous Japanese rental video and music shop network. The company uses its online company to notify users about new releases, enable users to check inventory, and to distribute discount coupons to Internet-enabled cell phone users. Coupons play a large role in encouraging users to visit TSUTAYA's physical stores; when users come into a store to redeem their coupons, some are also inclined to rent videos that are not covered by the coupon. As a result, the online company has contributed significantly to increased sales. It should be mentioned that this model works because the company has already developed a large chain store network.

In summary, all three patterns mentioned above work effectively because both online and physical infrastructure (synergistic business resources) exist.
Luring Customers to Physical Stores With Electronic Coupons

Visiting a store

Electronic coupons

TSUTAYA/DB
TSUTAYAonline -DB

Segmented online distribution based on collected data

(Source: Public Relations data, TSUTAYAonline)

TSUTAYA Sales and Profits/Losses

TSUTAYA online members
3,740,600 (as of March 2003)

Names: http://www.css.co.jp/ir07/morning.html
http://www.css.co.jp/ir07/pdf/2003_4qPDF
5. Conditions for Sustained Competitive Advantage

In this section, all of the above cases are analyzed from a resource-based perspective. The resource-based theory implies that a company can boost its performance by possessing superior business resources/abilities that its rivals do not, or by possessing business resources/abilities that clearly exceed those of its rivals. In short, the key to market dominance is developing abilities and knowledge that competitors cannot easily imitate. The same conditions are required for success in online business as well. To make sure of this point, I would like to refer to Jay B. Barney (1991), who lists the following as requirements for sustained competitive advantage:

- Business resources must be valuable
- Must be rare/scarce
- Must be non-substitutable
- Must be inimitable

In addition to the above, I would like to add one more condition:

- The company must have plural business resources that meet all of the above requirements

6. eBay and Amazon.com From the Resource-Based Perspective

Because of its pioneering role in the U.S. online auction market, eBay has been able to amass a huge customer base and as a result has secured a dominant market position. In this case, the company's customer base serves as a valuable business resource that has enabled it to maintain competitive advantage. The more items put up for auction, the more users flock to the site to bid; the more users visit the site to bid, the more items are put up for bid. It's a virtuous cycle that has helped eBay to grow and become stronger.

In the U.S., it is difficult to imitate such a business resource as eBay's, which meets all four of Barney's requirements. On the other hand, eBay's customer base is the only resource that it can count on for market dominance, and this could become a problem for the company in the future. This situation can be called as a "single-resource advantage." That is why I added on the fifth requirement above — because a single-resource advantage can easily become a weakness as faced to a different environment or changing environment; therefore, it is desirable for a company to possess plural resources.
Companies with a single-resource advantage are more likely to have limited ability to maintain competitive advantage based on the same resource. In other words, even though a company might be able to leverage a single-resource to maintain dominance in one market, the same company might be much more vulnerable when trying to leverage its single-resource in another market. In order to make an auction business work, effective systems, marketing, and other business resources are also necessary. eBay, however, did not assume its current inimitable position by developing such resources. Competitors may be superior to eBay as for these resources.

Consequently, at the time eBay entered the Japanese market, it was already a latecomer that did not have a customer base; this is thought to be the reason behind its failure in Japan. It was Yahoo! Japan Auctions that pioneered Japan's online auction market and was able to create a large customer base. eBay's single-resource advantage in the U.S. market (or more specifically, the English-speaking market) did not translate well to the Japanese market. Another latecomer, Japanese venture Bidders, was able to secure the No.2 position in Japan's online auction market and continues to grow. Although Bidders did not boast a large customer base like Yahoo! Japan's, it was able to overcome this weakness through superior marketing activities and eventually become profitable.

**eBay's Superior Business Resources**

By comparing Amazon.com's business resources to eBay's, we notice a different infrastructure in place. Amazon.com's resources, which include logistics centers, procurement abilities, various back-end systems, readers' community, and an affiliate program, are slightly more superior than those of its competitors. While eBay excels in the factor of customer acquisition, Amazon.com excels in a variety of factors. Amazon.com's model can be called as having a "multi-resource advantage." This advantage raises the probability that the company will exceed in multiple markets.
This is the main difference between the two companies' business models. While I cannot go so far as to completely condemn the single-resource advantage, it is clearly evident that a resource considered to be superior in one market does not guarantee success in another. In Amazon.com's case, it was able to achieve market dominance in Japan with its superior back-end systems; in the U.S. market, it was the company's logistics and procurement strengths that enabled it to excel. It is also possible for a company to achieve market dominance by excelling in procurement for some products, creating a community for other products, and offering an affiliate program for still other products.

Amazon.com's Superior Business Resources

<table>
<thead>
<tr>
<th>Logistics</th>
<th>Procurement ability</th>
<th>System</th>
<th>User reviews</th>
<th>Affiliate program</th>
</tr>
</thead>
</table>

Multi-Resource Advantage
Superior operations as a result of long-term early investments

7. Inimitability and Multi-resource Advantage

The multi-resource advantage model does have vulnerability: investments in business resources can become too widely dispersed. The ideal way in which to avoid such a situation is to focus on concentration and synergy; in other words, implement a multi-resource advantage strategy while maintaining an extremely strong business resource. An excellent multi-resource example of this kind is TSUTAYA and TSUTAYA online. It maintains a very strong network of stores (a business resource) and at the same time prominent back-end systems and marketing abilities. This is an ideal model because it is very strong and very difficult to imitate. (However, TSUTAYA has a weakness as well: future video-on-demand technology threatens to render its video rental chain obsolete. Any business resources are at risk.)
Based on the above perspectives, it does not matter whether a company's resources are in the online realm or the physical; what matters most is how easily the company's rivals can imitate those resources. To achieve market dominance, a company's business resources — physical or online — must be superior to those of its competitors. This is why it is comparatively easier for clicks-and-mortar companies to be successful, as observed in the examples above.
Another vital factor is synergy. It is important that the synergistic effect created by a combination of business resources is greater than the simple sum of its parts. The greater the synergistic effect, the stronger the multi-resource advantage.

8. Conclusion: Business Models and Resources

It is possible to imitate a business model per se. Speaking using metaphor, each business resource functions as a muscle, and the business model functions as a skeletal framework. A robust body requires strong muscles and a stable framework. And while the framework is certainly important, it may be easily imitable. That is where the role of the muscles (resources) comes into play to ensure a superior business structure. The same is true of Japanese kaizen: kaizen is required by real and online businesses. Online business, which is seen as heavily dependent on bright ideas, needs kaizen now.

"If you want to try and imitate our basic business model, be our guest – we’ll still have the advantage. The reason is because we have combined multiple business resources to create a synergistic effect that cannot be beaten. Merely imitating our model will not help you compete." – This is an ideal stance for a company to assume.

Regardless of whether we are talking about pure players, clicks-and-mortar businesses, or bricks-and-mortar businesses, I believe that this principle will always prove valid.
References:


