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Early-mover advantages at cross-border business-to-business e-commerce portals

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ABSTRACT

The Internet enables enterprises to sell their products via cross-border business-to-business (B2B) e-commerce portals. However, researchers know little about the early-mover advantages for such third-party platforms. The rapid, convenient, and wide market access offered by these platforms may allow early-mover exporters to enjoy advantages over late movers in terms of learning effects and switching costs. We hypothesize that early-mover advantages may diminish beyond a critical length of tenure because of the free-riding costs, resolution of technological or market uncertainty, as well as the incumbent inertia of early movers. We also argue that product price and diversity will pose different boundary conditions on how early-mover advantages are manifested. Using web search and mining methods, we collect data on approximately 300,000 B2B export transactions conducted by nearly 4000 firms in 2007–2014 through online portals. Employing panel data models, we find strong evidence supporting our hypotheses.

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1. Introduction

The Internet has become an important accelerator for global trade (Gabrielsson & Gabrielsson, 2011; Petersen, Welch, & Liesch, 2002). The number of third-party cross-border business-to-business (B2B) e-commerce portals and transaction intermediaries is increasing, and enormous enterprises start their international venturing on such platforms. For example, [Alibaba.com](http://www.alibaba.com) offers hundreds of millions of wholesale products to buyers located in more than 190 countries every year (Alibaba.com, 2015).

E-commerce platforms pose limited entry barriers to newcomers, given that many of the platforms do not charge admission fees but merely charge reasonable commission fees based on the value of online transactions (Chen, Seong, & Woetzel, 2014). Several platforms provide enabling services, such as free training courses for newcomers on online sales techniques, standard web store templates, and convenient technological features (Wang, Cavusoglu, & Deng, 2016). With the facilitation measures, e-commerce portals have accommodated a full spectrum of firms, ranging from massive small- and medium-sized enterprises (SMEs) to large players. Newcomers may easily enter the marketplace with low entry barriers and replicate the business model of the early movers (Makadok, 1998); thus, SMEs may encounter difficulty in possessing early-mover advantages (EMA) in cross-border B2B portals.

In particular, cross-border B2B portals attract potential entrants and buyers from every corner of the world to participate in the global online trade, extremely intensifying the already hypercompetitive environment. These special features of cross-border B2B portals have shaken the foundation of conventional EMA and rendered the potential EMA unprecedentedly transient and easily obsolete.

People may express skepticism toward the EMA at such emerging, important and special portals. In particular, this subject raises several questions: Are early entrants at such platforms capable of enjoying their early entry? If an EMA exists, how long can it persist? Can any competitive strategy help prolong the EMA?

However, the extant EMA literature, originating from the seminal work of Lieberman and Montgomery (1988), has not explicitly answered these new questions. Some studies have focused on variations in the EMA of brick-and-mortar firms in the Internet environment (Min & Wolfenbarger, 2005), whereas others have examined the EMA of e-commerce portals per se (Mellahi & Johnson, 2000). The study of Wang et al. (2016) is the first in the literature investigating the EMA of retailers on a domestic third-party e-commerce portal. It has found evidence of EMA but has neglected the potentially fleeting nature of EMA on such a platform, and therefore does not examine the sustainability of EMA in a time horizon. As firms are entering an era of global connectivity unprecedentedly enabled by cross-border e-commerce, a study on the EMA of firms at *third-party cross-border e-commerce portals* has become necessary for researchers and practitioners to truly comprehend the new dynamism of EMA. Therefore with panel data collected from a cross-border B2B e-commerce portal, we re-examine the classic EMA logic (Lieberman & Montgomery, 1988), as well as incorporating

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two moderating effects of competitive strategies, namely, product price and diversity (Porter, 1980, pp. 34–46).

2. Theory

2.1. Early-mover advantages related to the Internet

Lieberman and Montgomery (1988) suggest that first-mover advantages primarily arise from three sources, namely, (a) technological leadership (i.e., learning curve and R&D), (b) preemption of resources (i.e., key input factors and locations), and (c) switching costs and buyer choice under uncertainty. At the same time, first movers have to incur disadvantages arising from four sources as time elapses, namely, (a) free-rider effects, (b) resolution of technological or market uncertainty, (c) shifts in technology or customer needs, and (d) incumbent inertia (Lieberman & Montgomery, 1988). The term “first-mover advantages” has gradually been employed interchangeably with EMA (Makadok, 1998). Recent research has incorporated the market environment and firm capabilities as factors that moderate EMA (Suarez & Lanzolla, 2007; Wang et al., 2016). It has also examined the mediating role of switching cost in determining EMA (Gómez & Maicas, 2011).

The Internet presents a special context for studying EMA due to its unique nature (Varadarajan, Yadav, & Shankar, 2008). First, EMA resulting from R&D could be hampered because business models and processes are highly transparent and imitable online (Porter, 2001). Second, the preemption argument is undermined by the fact that the costs of opening up and maintaining a virtual shop have decreased rapidly as hardware, electronic devices are becoming increasingly affordable (Sheth & Sharma, 2005). Empirical studies on e-tailer EMA generate mixed evidence. Some studies find no evidence of EMA among e-tailers (Min & Wolfenbarger, 2005; Nikolaeva, 2007), whereas other studies show that EMA can be achieved in a market by firms with significant network effects (Lieberman & Montgomery, 1998) and by larger retailers (Pentina, Pelton, & Hasty, 2009).

Three types of business models are associated with the Internet, each of which may exhibit their EMA differently (Wang et al., 2016). First, e-commerce portals per se such as eBay enjoy EMA from network effect and pioneering infrastructure construction (Mellahi & Johnson, 2000). Second, independent stores such as online Wal-Mart leverage their EMA with prior brand loyalty and huge investment in physical facilities. Third, an increasing number of e-tailers have been doing businesses in third-party e-commerce portals such as eBay. The extent to which the e-tailers exhibit their EMA has been challenged by the extremely low entry barriers and the buyer loyalties in such portals (Wang et al., 2016). Scant extant studies on EMA in the third-party e-commerce portals employ survey data from a limited scope of sellers, which cannot reflect the overall landscape of B2B transactions (Pentina et al., 2009). The literature has also neglected the contingency conditions under which EMA may be sustained for a long period.

2.2. EMA at cross-border B2B e-commerce portals

Among the various sources of EMA articulated in the seminal work of Lieberman and Montgomery (1988), *learning curve* and *switching costs* remain valid in cross-border B2B portals. As early movers grow older, three sources of early-mover disadvantages stated in the paper of Lieberman and Montgomery (1988) will play a dominant role, namely, *free-rider effect*, *resolution of technological or market uncertainty*, and *incumbent inertia*.

EMA at cross-border B2B portals originates from two major sources, with supplier *learning curve* as the most important factor in knowledge accumulation and innovation via B2B relationships (Biggemann & Buttle, 2012; Kim, Basu, Naidu, & Cavusgil, 2011). Cross-border B2B sellers may easily meet internationally diversified demand using far-reaching B2B platforms (Partanen, Möller, Westerlund, Rajala, & Rajala, 2008) and may obtain access to the customer data stored by

the portals through external sources (Kim et al., 2011). The longer a B2B seller stays at the portal, the better it will understand its buyers (Chen et al., 2014). In addition, a B2B seller can then improve its sales and marketing techniques, develop the most desirable products, and promote sales performance (Petersen et al., 2002; Porter, 2001). Moreover, early entrants will be able to accumulate significant operational knowledge using these novel platforms (Grewal & Tansuhaj, 2001). These export sales experience and capability will reinforce the effectiveness of adopting the virtual export channels, forming a virtuous cycle between learning and exporting (Morgan-Thomas & Bridgewater, 2004). Using the cross-border B2B platform, this learning effect will be amplified by the exposure to an extremely wide buyer base. The great variety of demand around the globe will push the early entrants to effectively tailor their products and rapidly accumulate abundant international experience (Reuber & Fischer, 1997).

An early entrant can enhance its reputation and associated non-contractual *switching cost* for buyers (Gómez & Maicas, 2011). Such switching cost still prevails for B2B scenarios, although the cost may be lower compared with brick-and-mortar businesses (Porter, 2001). The early stages of a product launch provide early movers with an opportunity to influence buyers' perceptions of the relative importance of attributes (Kerin, Varadarajan, & Peterson, 1992; Porter, 2001). Through its marketing and active product co-development efforts, an early mover may be able to establish the perceptual structure of the market to its advantage, and become the prototype against which all late entrants' offerings are compared (Gómez & Maicas, 2011). Although cross-border B2B platforms have extremely low entry barriers for potential entrants, the latecomers to such platforms will still encounter difficulty in rapidly overcoming the high barriers constructed by the early entrants in terms of reputation and market memory (Barnett, Feng, & Luo, 2013). In a cross-border B2B context, opportunistic behavior is common due to information imperfection caused by the general lack of in-depth face-to-face communication and on-site quality control (Daniels, Radebaugh, & Sullivan, 2011, pp. 470–473). Compared with the individual customers at business-to-customer portals, wholesale buyers at B2B portals can hardly afford the large risks of switching to an unreliable supplier. Under the uncertainty of cross-border B2B, buyers will be rationally loyal to the early suppliers that have delivered their orders satisfactorily (Balabanis, Reynolds, & Simintiras, 2006; Srinivasan, Anderson, & Ponnayolu, 2002).

However, the marginal benefit of early entry will start to diminish after a certain period. As B2B portals provide standardized and professional virtual trading rooms for sellers and buyers, the entry barrier to online exporting has been lowered to a minimum level (Chang, Jackson, & Grove, 2003). The costs of international advertising, information searches, and transactions at cross-border B2B platforms are substantially lower than the costs in the conventional brick-and-mortar export marketing mode (Clarke & Flaherty, 2003; Petersen et al., 2002). As new competitors emerge and the market becomes saturated, the early-mover disadvantages of incumbent sellers will counterbalance the effects of EMA, with a relatively quicker pace compared with brick-and-mortar markets (Porter, 2001).

Late movers may be able to take a *free ride* on the first movers' efforts to educate customers, create the market, and nurture talents. When early movers initially enter the market, they need to heavily invest in market research and advertisements to identify what potential buyers want and how to draw buyers' attention to the new products and purchasing channel (Carlton & Chevalier, 2001). These education costs may be relatively high in cross-border B2B marketplaces because foreign wholesale buyers tend to prefer transactions with conventional offline approaches (Quelch & Klein, 1996). These foreign wholesale buyers might not even know they could have purchased foreign products through online channels. In effecting cross-border B2B transactions, early movers also need to engage extra resources in cultivating professionals (Guasch & Weiss, 1980) with profound expertise in export, foreign language, and information technology (Morgan-Thomas

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