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Information & Management 43 (2006) 222–238
INFORMATION & MANAGEMENT
www.elsevier.com/locate/dsw

Internet market strategies: Antecedents and implications

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Received 7 April 2004; received in revised form 14 September 2004; accepted 20 June 2005
Available online 15 August 2005

Abstract

The Web is a new market channel that has become a serious alternative to traditional channels. At present, there is little strategy analysis available to guide a company's decision about its involvement in the internet market. In this paper, we differentiate between the internet and traditional market channels and define two fundamental strategies for operating on the internet as: *pure* and *mixed*. Based on models of competition in microeconomic theory and resource-based perspectives, we develop a conceptual model for channel selection. We discuss the results and their implications for companies operating on the internet.

Keywords: Creative pricing policies; Mixed strategy; Pure strategy; Resource-based theory; Internet competition; Internet market; Traditional markets; IMS model

1. Introduction

Firms rely on the Web as an alternate channel for branding their products, transactions, and public relations. By doing so, they reduce their transaction and communication costs, increase the speed and quality of communication with potential customers and suppliers, and expand their markets beyond their geographical boundaries. Online publishers, for instance, have lower printing and circulation costs, maintain smaller inventories, and have better relationships with customers than conventional publishers. The rise of *amazon.com* to a prominent online company with US$ 5.3 billion in net sales 2003 [2] as well as Dell's 50,000 employees and its US$ 34.4 billion annual revenue in 2003 [22] attest to the great potential of the internet. Intel reached US$ 1 billion sales on e-business per month in the year it deployed its e-commerce system [60]. However, while the use of the internet can reduce costs, it also has the potential to reduce the profit of inefficient firms [6]. Furthermore, operation in the internet does not necessarily produce profit, as demonstrated by the number of internet companies that have failed.

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0378-7206/$ – see front matter
doi:10.1016/j.im.2005.06.004

It has long been recognized that strategic positioning is critical to the long-run survival of any firm [63]. The internet has created new avenues for creative rethinking of business models, processes, and relationships [16,44,55,69]. There is now a stronger demand for a sound strategy, which in turn requires an understanding of the differences between operating in the traditional markets and on the internet [18,61]. However, corporate decision makers need to understand the implications of each strategy and the factors associated with adopting it. Hence, identifying market strategies and understanding their driving forces and implications is necessary in making strategic decisions regarding Web investment and marketing channels.

In this paper, we investigate e-commerce strategy choices, their antecedents, and their implications. In doing so, we need to carefully delineate basic strategic choices. We compare the characteristics of marketing channels and categorize internet market strategies into two types: *pure* (only online) and *mixed* (or hybrid—those operating in both online and traditional markets). We argue that the choice of a market strategy does not take place in a vacuum. Business decision makers need to know the implications of selecting one strategy over another.

2. Internet market strategies and pricing policies

We distinguish between two types of market channels in general: traditional and internet. In the internet market, buyers and sellers rely on it to conduct some parts of public, market-related activities. We can differentiate this from traditional markets in three dimensions: access, competition, and information.

2.1. Market access

Traditional market channels have a location constraint that reduces consumers' utility [36]. With its global reach, the internet market enjoys a lower level of this constraint [15] and requires less start-up resources. Furthermore, the difference in market structure for intermediation may also reduce transaction costs for consumers and suppliers. It has been observed that the internet has replaced the role of traditional intermediaries, a phenomenon called "disintermediation." At the same time, a new intermediary type, called cybermediaries or infomediaries, has emerged to provide, process, and validate information on the increasingly large number of suppliers [5]. Successful examples of such online firms are *yahoo.com* (recently purchased by Kelkoo, its European counterpart) and *google.com*. The information provided by such firms helps reduce transaction costs on the internet by reducing the search cost and increasing information access.

Even though the internet increases suppliers' and consumers' access to the market, it constrains access for certain categories of consumers and suppliers. Participating in the internet market requires technology know-how and resources. Furthermore, substantial resources are needed to develop and maintain websites that engender consumer traffic, customer loyalty, profitability, and growth. There is some evidence that e-marketing has become increasingly resource-intensive, making firms with limited resources unable to reach their intended consumers.

2.2. Price information

There is a cost associated with searching for information on products and prices. The high cost of such searches creates inefficiencies in the market and reduces competition. The internet increases price competition. It enhances customers' utility by improving the match between consumer needs and products, and moves this market closer to perfect competition as perceived in Walrasian competitive equilibrium theory. For example, the availability of book prices on *amazon.com* and *barnesandnoble.com* makes it easy to compare online book prices. Moreover, firms such as *priceline.com* give online shoppers a chance to compare prices.

On the other hand, internet information overload creates congestion, which taxes customers' cognitive capabilities and increases their search cost. Information seekers rely on "infomediaries" such as search engines to reduce their search cost, which may reduce some vendors' visibility. Furthermore, as online customers' options increase, they rely on brand names (for websites and products) in order to reduce their search costs. Creating brand names is a costly option for online vendors. Moreover, for non-digital products not deliverable directly by downloading, a purchase